FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF TEA PROCESSING FACTORIES IN MOUNT KENYA REGION, KENYA

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A PROJECT SUBMITTED TO SCHOOL OF BUSINESS, ECONOMICS, AND TOURISM FOR THE PARTIAL FULFILLMENT FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE OPTION) KENYATTA UNIVERSITY

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DECLARATION

I hereby declare that this research project is my original work and has not been presented for award for a degree at this or any other university. No part of this research project may be duplicated without the author's and/or Kenyatta University's prior written consent.

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This is to declare that this research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

I dedicate this work to my family: My late brothers Peter Wanjihia and Henry Huru who inspired me to pursue education.

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LIST OF ACRONYMS AND ABBREVIATION

DOPU	Drop-Off and Pick-Up
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
JIT	Just-in-Time
KRA	Kenya Revenue Authority
KTDA	Kenya Tea Development Agency
NACOSTI	National Commission for Science, Technology and Innovation
NPM	Net Profit Margin
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SPSS	Statistical Package for the Social Sciences
UN	United Nations

OPERATIONAL TERMS DEFINITION

Cash Management Practices	Practices encompassing the management of cash inflows, outflows, and retained balances within a business at a specific time. Measured using cash mobilization, cash budgeting, and cash management policies.
Capital Structure Decisions	Decisions related to determining the appropriate mix of debt and equity in financing a company's operations. Quantified using debt proportion, equity ratio, and retained earnings.
Financial Management Practices	Strategies and approaches for planning, overseeing, and managing the financial operations of an entity. In this study, it includes practices such as inventory management, cash management, and capital structure decisions.
Financial Performance	The achievement of financial objectives, reflecting the entity's monetary success. Measured using the net profit margin as an indicator.
Inventory Management Practices	Policies, systems, and procedures aimed at reducing total costs associated with inventory decisions. Assessed through continuous quality improvement, Just-in-Time (JIT) systems, and strategic relationships with suppliers.
Tea Processing Factory	A facility that collects green leaf tea from growers, processes it into made tea, packages it, and sells it. Payment to farmers is made after deducting administrative, marketing, and other operational expenses.
Mount Kenya Region	A geographical area comprising Embu, Kiambu, Kirinyaga, Meru, Murang'a, Nyeri, and Tharaka Nithi counties.

ABSTRACT

Tea processing factories in the Mount Kenya region play a pivotal role in Kenya's economy by contributing significantly to gross domestic product, employment, and foreign exchange earnings. However, despite their importance, these factories face financial performance challenges arising from fluctuating international tea prices, high production costs, and climate change impacts. From 2018 to 2020, notable disparities in financial performance were observed across counties in the region, highlighting the need for improved financial management practices. This study aimed to investigate the effect of financial management practices on the financial performance of tea processing factories in the Mount Kenya region. Specifically, the study examined the impact of cash management practices, capital structure decisions, and inventory management practices on financial outcomes. Grounded in Agency Theory, Pecking Order Theory, Cash Conversion Cycle Theory, and Lean Inventory Management Theory, the study adopted a descriptive research design. The target population comprised 35 tea processing factories in the Mount Kenya region, with managers and accountants serving as key respondents (n=70). Data collection utilized structured questionnaires with a five-point Likert scale, and quantitative analysis techniques were employed. The findings revealed moderate to high adherence to financial management practices, with significant positive effects on financial performance. Effective cash management, including budgeting and monitoring, showed strong correlations with improved financial outcomes. Similarly, strategic inventory management practices, such as Just-In-Time models and supplier relationships, were critical for enhancing performance. Capital structure decisions, particularly reliance on retained earnings and balanced debt-equity ratios, contributed to financial stability, albeit with variability among factories. The study concluded that financial management practices significantly influence the financial performance of tea processing factories in the Mount Kenya region. It recommends maintaining balanced capital structures, implementing effective inventory management systems, and optimizing cash management practices. Regular monitoring of financial indicators and fostering financial literacy among employees are essential for sustained growth and competitiveness in the tea sector.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Tea remains one of the most consumed beverages globally, second only to water, due to its affordability and cultural significance (Gamage & Wickramaratne, 2020). Globally, tea production is concentrated in Asia, with China, India, and Sri Lanka leading in output. In 2018, China produced 2,616 thousand metric tons, securing its position as the world's largest producer, while India ranked second. Kenya, the largest tea producer in Africa, ranked third with an output of 492.9 metric tons (Ismael & Hilal, 2020). The global tea market continues to experience shifts in consumer preferences, with increased demand for value-added products like packaged and instant tea in Western markets and tea bags in Asia (FAO, 2022).

At the regional level, Africa plays a significant role in global tea production. Kenya, Uganda, Tanzania, Rwanda, and Malawi are the primary tea-producing countries on the continent. Kenya, in particular, has emerged as a global leader in black tea exports, contributing substantially to the regional economy. The Tea Board of Kenya estimates that the tea industry accounts for 23% of Kenya's foreign exchange earnings and 2% of agricultural GDP. This underscores the industry's importance to the livelihoods of 665,000 smallholder farmers and five million Kenyans who depend on tea directly or indirectly for income (Tea Board of Kenya, 2024). Uganda and Rwanda have also witnessed growing contributions from tea to their economies, despite challenges such as climate change, aging plantations, and high production costs (Ezra et al., 2019).

In Kenya, tea factories are vital to integrating small-scale farmers into the global tea supply chain. Currently, over 60 tea factories operate under the management of the

Kenya Tea Development Agency (KTDA), which provides a wide range of services, including production, processing, marketing, and payment management (KTDA, 2024). These factories are farmer-owned, with elected directors ensuring transparency and equitable profit distribution. KTDA has also emphasized the prohibition of pesticides and chemicals in tea cultivation to maintain high-quality export standards (Tea Board of Kenya, 2024).

The global tea industry, however, faces significant challenges that directly affect regional and local production. Climate change has emerged as a primary concern, causing unpredictable weather patterns that reduce tea yields and quality (Karuri, 2020). This is particularly problematic for tea factories in Kenya, where small-scale farmers are highly vulnerable to financial instability caused by reduced output. Additionally, global tea prices have been declining in real terms over the last four decades, further pressuring farmers and tea factories to improve operational efficiency and diversify income sources (FAO, 2022).

Other tea-producing regions face similar issues. In Sri Lanka, for example, the tea industry struggles with an overreliance on exporting unprocessed tea, a limited domestic market, and outdated production technology. The smallholder sector, which accounts for three-quarters of Sri Lanka's tea production, is particularly affected by labor shortages as younger generations pursue opportunities outside agriculture (Gamage & Wickramaratne, 2020). Uganda’s tea industry faces high production costs, inadequate agronomic practices, and climate-related challenges that hinder growth. However, efforts to introduce better policies and institutional frameworks are underway to enhance the sector's performance (Ezra et al., 2019).

Despite these challenges, the Kenyan tea sector is well-positioned to maintain its global competitiveness. Kenyan tea factories have adopted innovative practices, such as diversifying into value-added products like specialty teas, which command higher prices in international markets (FAO, 2022). Additionally, collaboration between tea factories and smallholder farmers through cooperative models ensures better financial stability and consistent quality. To sustain growth, tea factories in Kenya must continue addressing operational inefficiencies, expanding market access, and integrating climate-smart practices. Drawing lessons from global leaders like China in technology adoption and Sri Lanka's efforts to enhance product diversification could help Kenyan factories further solidify their position in the global tea industry (Ranaweera, 2019; Hilal & Mubarak, 2019).

1.1.1 Financial Management Practices

Effective financial management practices are foundational to achieving the long-term growth and operational efficiency of any organization. These practices involve the strategic planning, organizing, directing, and controlling of financial resources to meet the organization’s objectives, maximize value, and ensure financial stability (Brigham & Ehrhardt, 2019; Gitman, Juchau, & Flanagan, 2015). While this study focuses on cash management, inventory management, and capital structure decisions, financial management practices encompass several other key components, including financial planning, budgeting, internal controls, risk management, and financial reporting (Brown & Peterson, 2020; Johnson, 2021). Each component plays a distinct role in supporting overall organizational performance.

Cash management practices entail the meticulous monitoring and control of cash inflows and outflows to ensure sufficient liquidity for day-to-day operations and the optimization of excess funds for investment opportunities (Smith, 2019; Brigham &

Ehrhardt, 2019). Strategies such as efficient cash mobilization, which includes timely collection of receivables and optimal cash transfers, are integral to maintaining liquidity and minimizing reliance on external financing (Gitman et al., 2015). Cash forecasting and planning are also critical in this context, enabling organizations to anticipate potential financial shortfalls or surpluses and act proactively to address them (Ross, Westerfield, & Jaffe, 2018). By sustaining adequate cash levels, firms can improve operational stability and financial performance (Brown & Peterson, 2020).

Financial planning involves creating detailed projections of an organization's revenues and expenses, ensuring sufficient resources to meet financial obligations and support strategic goals. Effective budgeting complements financial planning by allocating resources in alignment with organizational priorities and monitoring expenditures to avoid cost overruns (Gitman et al., 2015). Together, these practices enable organizations to align their financial strategies with operational objectives, thereby improving resource utilization and minimizing financial risks (Van Horne & Wachowicz, 2008).

Inventory management aims to minimize costs associated with holding, ordering, and stockouts while maintaining adequate stock to meet customer demand. Techniques such as Just-in-Time (JIT) inventory management ensure alignment between inventory levels and production or sales requirements, reducing holding costs and the risk of obsolescence (Lee & Carter, 2019; Brigham & Ehrhardt, 2019). Continuous quality improvement initiatives in inventory management further enhance efficiency by reducing waste and improving product quality, thereby increasing customer satisfaction (Johnson, 2021).

Risk management is a critical aspect of financial management that involves identifying, assessing, and mitigating financial risks. Practices such as diversifying investment portfolios, hedging against currency fluctuations, and establishing reserves are employed to protect the organization from unexpected financial shocks (Smith, 2019). Effective risk management enhances the resilience of an organization's financial framework, ensuring stability even during economic downturns (Brigham & Ehrhardt, 2019).

Capital structure decisions focus on determining the optimal mix of debt and equity financing to support operations and growth. These decisions have profound implications for financial risk, cost of capital, and profitability (Myers & Majluf, 1984). The debt ratio assesses the extent to which an organization relies on debt, balancing the benefits of tax savings with the risks of increased leverage. Similarly, the equity ratio reflects the level of financial independence, with higher equity ratios reducing risk but potentially limiting returns for shareholders (Ross et al., 2018). Retained earnings, as part of the capital structure, offer a cost-effective financing option, allowing firms to reinvest profits without incurring additional debt (Van Horne & Wachowicz, 2008).

Internal controls ensure the accuracy and reliability of financial data, safeguarding against fraud and errors. This practice is complemented by financial reporting, which provides stakeholders with transparent and accurate information about the organization's financial performance (Brigham & Ehrhardt, 2019). Adherence to regulatory standards and ethical principles in reporting enhances credibility and builds investor confidence (Gitman et al., 2015).

This study focuses on cash management, inventory management, and capital structure decisions due to their direct impact on organizational liquidity, cost efficiency, and

financial sustainability. Cash management is critical for short-term operational stability, ensuring that firms meet their immediate financial obligations. Inventory management influences cost structures and customer satisfaction, directly affecting profitability and competitiveness. Capital structure decisions shape long-term financial risk and return dynamics, determining the organization's growth trajectory (Brown & Peterson, 2020; Lee & Carter, 2019). While other financial management practices such as financial planning, budgeting, and risk management are equally essential, they are indirectly linked to the selected indicators and may be explored in future studies for a more holistic understanding of financial performance. By focusing on these three indicators, this study aims to provide actionable insights into optimizing key financial management practices to improve organizational performance (Van Horne & Wachowicz, 2008).

1.1.2 Financial Performance of Tea Processing Factories in Mount Kenya Region

The tea processing industry's fiscal outcome in the Mount Kenya region is a vital indicator of their efficiency and economic prosperity. Financial performance assesses the degree to which these factories achieve their financial objectives, providing insight into their effectiveness, profitability, and overall financial health. According to Yusuf, Onafalujo, Idowu, and Soyebo (2018), When we talk about fiscal performance, we mean the degree to which an enterprise successfully accomplishes its financial goals. It functions as a benchmark for evaluating the efficiency of a company's procedures and guidelines in financial phraseology.

The financial performance of a firm serves as a measure of its capacity to efficiently utilize its assets to generate gains for its shareholders (Mohsin, Ahmed, & Streimikiene, 2020). This report (Alnajjar, 2016) provides a comprehensive analysis and summary of

a firm's financial condition for a certain period, including factors such as profitability, liquidity, and solvency. Evaluating the financial performance of tea processing companies in the Mount Kenya region is crucial for assessing their resource management, operational efficiency, and capacity to provide value to stakeholders.

Financial performance, as per the definition provided by Yusuf, Onafalujo, Idowu, and Soyebo (2018), pertains to the degree to which a company has successfully accomplished its financial objectives. It functions as a standard for assessing and measuring a company's strategy and operations in financial terms. Results financially pertains to the quantification of a firm's production and efficiency. Wealth creation efficiency is the measure of how successfully a corporation uses its resources to produce financial value for its owners (Mohsin, Ahmed, & Streimikieon, 2020). Assessing a company's total financial health over a certain time frame is advantageous. (Alnajjar, 2016).

Accounting ratios are often used to evaluate an organization's financial performance, using various variables to determine profitability. Return on Equity (ROE) and Return on Assets (ROA) are two examples of these ratios. Return on assets (ROA) is a quantitative measure that evaluates the efficiency of a company's management in using its assets to create profits. The calculation involves dividing the company's yearly profits by its total assets. Conversely, return on equity (ROE) measures the productivity of management in employing money from shareholders to create profits. To get the percentage, divide the earnings after taxes by the shareholder equity (Pan dy, 2010). To get a full review, it is advisable to compare these ratios with industry standards and those of other similar firms (Pandy, 2010).

Return on Investment (ROI) is a metric that quantifies how well management utilizes invested money to generate income. The calculation involves dividing the net profit after tax by the entire paid-in capital (Pandy, 2010). The net profit margin, which is determined by dividing net profit by sales (Dita and Murtaq, 2014), serves as a standard for evaluating management effectiveness in production, administration, and sales (Pandy, 2010). A higher net profit margin is advantageous for enduring fluctuations in market selling prices (Dita and Murtaq, 2014; Pandy, 2010).

The researcher proposes using the net profit margin as a metric to assess financial performance, since it efficiently measures efficiency in the manufacturing, administration, and marketing sectors, which are the primary areas investigated in the study's variables. Given the tea sector's susceptibility to fluctuations in worldwide pricing, businesses in this industry see a larger net profit margin as advantageous in navigating volatility. An examination of profit margin percentages across counties reveals fascinating trends. During the period from 2018 to 2019, factories located in Embu County consistently had the highest profit margin ratio, whilst those in Nyeri County consistently had the lowest. Murang'a County continuously maintained its position as the fifth-ranked county, whereas Kirinyaga County secured the second position for two out of the three years being analyzed. The county ranking table displays notable fluctuations in the rankings of many counties, hence adding complexity to the regional study.

The average net profit margin ratio for counties remained continuously over 0.6000 during the three-year period. There were differences in the net profit margin ratio of the factories, both within the same county and across different counties. In 2018, all factories attained their highest proportion of net profit margin. The percentage of net

profit margin declined in all factories throughout the years 2019 and 2020, compared to the net profit margin ratio recorded in 2018. Table 1.1 and picture 1.1 provide the fiscal outcome data of the tea factories located in the Mount Kenya area for the years 2018 to 2020. The financial performance statistic is the net profit margin ratio (NPM).

Table 1.1 Net Profit Margin Ratios for Counties in Mount Kenya Region

County	**Average NPM (%)**		
	2018	2019	2020
Kiambu	0.7465	0.6840	0.6893
Murang'a	0.7458	0.7003	0.6885
Nyeri	0.7257	0.6669	0.6410
Kirinyaga	0.7567	0.7073	0.7005
Embu	0.7681	0.7221	0.7243
Tharaka Nithi	0.7491	0.7061	0.7139
Meru	0.7385	0.7068	0.6858

Source: KTDA (2024)

Table 1.1 presents the average Net Profit Margin (NPM) ratios for tea processing factories in various counties within the Mount Kenya region from 2018 to 2020. The Net Profit Margin ratio is a essential sign of a firm's prosperity, representing the percentage of sales left over after costs are subtracted and retained as profit . Kiambu County shows a slight decline in its average NPM over the three years, from 0.7465 in 2018 to 0.6893 in 2020. This indicates a decrease in profitability, suggesting that the tea processing factories in this county may have faced increasing costs or reduced revenues during this period. The drop in NPM could be attributed to factors such as rising production costs, increased competition, or fluctuations in tea prices (KTDA, 2024).

Murang'a County's NPM also demonstrates a downward trend, from 0.7458 in 2018 to 0.6885 in 2020. Despite a slight improvement in 2019, the overall decline suggests challenges in maintaining profitability. This trend might be linked to similar issues faced by Kiambu, including cost pressures and market dynamics (KTDA, 2024). Nyeri

County exhibits a notable decrease in NPM from 0.7257 in 2018 to 0.6410 in 2020. The consistent decline over the three years indicates persistent difficulties in sustaining profit margins. Potential contributing factors could include inefficiencies in production processes, higher operational costs, or adverse market conditions (KTDA, 2024).

Kirinyaga County's NPM decreased from 0.7567 in 2018 to 0.7005 in 2020, with a significant drop in 2019. Although the decline is less steep compared to some other counties, it still reflects a reduction in profitability. Factors such as changes in input costs or variations in the quality and quantity of tea produced might explain this trend (KTDA, 2024). Embu County experienced a slight decline in its NPM from 0.7681 in 2018 to 0.7243 in 2020. Despite the decrease, Embu maintains the highest average NPM among the counties, indicating relatively better profitability. This suggests that the tea processing factories in Embu have managed to control costs and maintain revenue levels more effectively than those in other counties (KTDA, 2024).

Tharaka Nithi County's NPM shows a decrease from 0.7491 in 2018 to 0.7139 in 2020. Although the reduction is moderate, it indicates a need for continuous monitoring of cost management and operational efficiency to sustain profitability (KTDA, 2024). Meru County's NPM declined from 0.7385 in 2018 to 0.6858 in 2020. The consistent downward trend highlights challenges in maintaining profit margins, possibly due to similar factors affecting other counties, such as cost increases and market fluctuations (KTDA, 2024). The overall trend across all counties in the Mount Kenya region shows a general decline in the Net Profit Margin ratios from 2018 to 2020. This trend suggests that tea processing factories in the region have been facing increasing challenges in maintaining profitability.

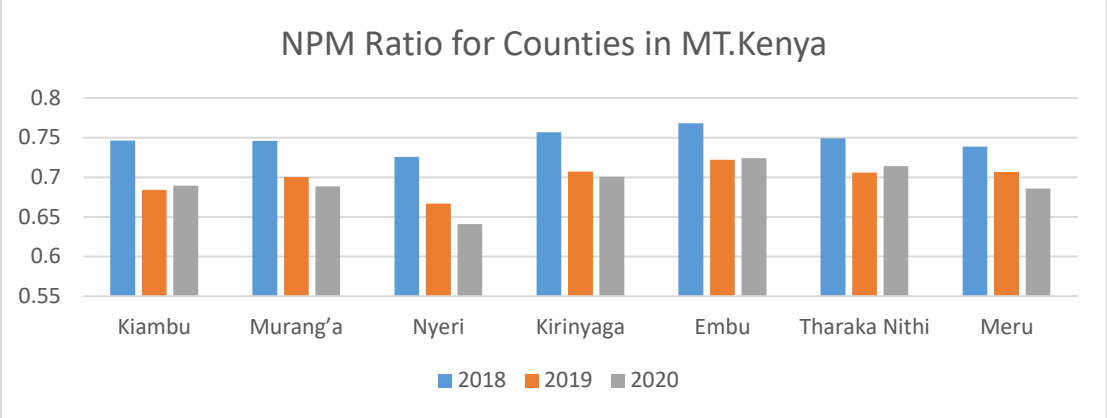


Figure 1.1 Tea Factories NPM Ratio

Source: Researcher (2024)

1.2 Statement of the Problem

Tea processing facilities have a crucial impact on the Kenyan economy, namely in the Mount Kenya area. They provide a substantial contribution to the country's gross domestic product (GDP), employment rates, and export revenues. Tea is a significant cash crop that serves as the main source of income for several small-scale farmers. These farmers provide the companies with unprocessed tea leaves (Chege, 2018). The tea business sustains a substantial number of lives by providing both direct and indirect job opportunities in growing, processing, and related services. Additionally, the export of tea plays a vital role in generating foreign currency profits for Kenya, therefore contributing to the stabilization of the national economy (Mwaura, 2020). Tea processing plants in the Mount Kenya area have consistently shown differences in financial performance, especially from 2018 to 2020. Tea processing companies in Kenya encounter several obstacles, notwithstanding their significance. An important concern is the volatility of international tea prices, which has an impact on the capacity to make profits and maintain financial stability (Kamau, 2019). Moreover, these firms face a significant strain due to the exorbitant manufacturing costs, which include expenses related to labor, energy, and transportation (Mutua, 2020). The adverse effects

of climate change on tea yields and quality pose a significant danger, resulting in decreased output and financial setbacks (Kiprono, 2021).

The performance patterns observed between 2018 and 2020 reveal notable discrepancies across tea processing plants in the Mount Kenya area. Embu County continuously had the greatest net profit margins, with figures of 0.7681 in 2018, 0.7221 in 2019, and 0.7243 in 2020. KTDA's financial health and management methods are robust and efficient, as seen by this demonstration (KTDA, 2024). Conversely, Nyeri County saw the worst net profit margins, decreasing from 0.7257 in 2018 to 0.6410 in 2020. The continuous decline indicates ongoing difficulties in sustaining profitability. Kirinyaga County had a little decrease in its performance, with a dip from 0.7567 in 2018 to 0.7005 in 2020. Similarly, the counties of Meru and Kiambu had oscillations, indicating diverse financial results across the years. Murang'a County regularly had subpar performance, showing persistent challenges impacting its financial outcomes (KTDA, 2024).

Cheruiyot (2016) investigated the impact of the financial end game of tea processing as impacted by working capital management companies in Nandi County, Kenya. Although this examination provided valuable information, it was confined to Nandi County and only focused on the management of working capital, disregarding other important financial practices including capital structure choices. Kiptoo (2017) performed an extensive investigation on the tactics used by Kenyan tea processing enterprises to manage their working capital and how these strategies impact their financial performance. While the research offered valuable insights into working capital management, it failed to investigate additional techniques for financial management, including inventory management and cash management. As a result, there is a conceptual gap in understanding the overall financial management landscape in the

tea industry. Obara and Muturi (2019) conducted research to investigate the influence of financial management methods on the profitability of Kenyan tea companies. The study especially studied the effect of inventory management in Kisii County. This research, while comprehensive, was constrained by its restricted geographical coverage and its sole focus on inventory management. Furthermore, the utilization of a census methodology and the dependence on both secondary and primary data sources has uncovered a need for more expansive methodological strategies to encompass a more all-encompassing depiction of financial management procedures. This research aimed to fill these knowledge gaps by examining the fiscal productiveness of tea processing plants in several counties within the Mount Kenya area. As a result, it offers a wider geographical perspective compared to earlier studies. Additionally, it analyzes a broader spectrum of financial management strategies, including cash management, inventory management, and choices on capital structure.

1.3 Objectives of the Study

The study was guided by both general and specific objectives

1.3.1 General Objective

The general objective of the study was to investigate the effect of financial management practices on financial performance of Tea processing factories in Mount Kenya region, Kenya.

1.3.2 Specific Objectives

The specific objectives of the study were to;

i. Determine the effect of capital structure decisions on the financial performance of tea processing factories in the Mount Kenya region, Kenya.

ii. Find out the effect of inventory management on the financial performance of tea processing factories in the Mount Kenya region, Kenya.

iii. Assess the effect of cash management on the financial performance of tea processing factories in the Mount Kenya region, Kenya.

1.4 Research Hypotheses

H_{01}. Capital structure decisions had no significant effect on the financial performance of tea processing factories in the Mount Kenya region, Kenya.

H_{02}. Inventory management practices had no significant effect on the financial performance of tea processing factories in the Mount Kenya region, Kenya.

H_{03}. Cash management strategies had no significant effect on the financial performance of tea processing factories in the Mount Kenya region, Kenya.

1.5 Significance of the Study

The outcome of this research will deliver policy makers valuable perspectves into the financial management strategies that improve the profitability of tea processing plants. By comprehending the elements that lead to discrepancies in financial performance, policymakers may devise strategies that promote the industry's expansion and long-term viability. This involves formulating favorable economic laws and regulations that specifically target the difficulties encountered by tea plants, such as exorbitant

production expenses and intense market rivalry. Furthermore, policymakers should use the study's suggestions to advocate for optimal methods in financial management across the tea processing industry.

The research will provide government entities with a comprehensive grasp of the economic ramifications of tea processing plants on both the national and regional economies. The discoveries will assist these organizations in formulating focused initiatives that tackle the distinct requirements and obstacles faced by the tea sector, such as financing for technical progress and plans to mitigate climate change. This may result in the development of more efficient support programs and initiatives that improve the overall performance and competitiveness of the industry. Furthermore, the findings of the research may assist in determining how resources should be distributed and infrastructure should be built to support the tea industry.

Factory managers may use the study's results to enhance their financial management processes, ultimately improving profitability and operational efficiency. The study offers practical suggestions on efficient cash management, inventory management, and capital structure choices, which are essential for maintaining financial well-being. Managers may enhance their ability to handle the difficulties posed by volatile market circumstances and increasing production expenses by using these strategies. The report also emphasizes the significance of ongoing surveillance and enhancing management strategies, which may result in sustained financial stability and expansion.

The broader society will reap advantages from the enhanced financial performance of tea processing facilities, since it will result in heightened economic stability and the generation of employment opportunities. Increased profitability of tea factories may lead to increased revenues for smallholder farmers and improved living conditions for

communities engaged in tea production. In addition, the establishment of more efficient tea factories may lead to more funding for community development initiatives, education, and healthcare facilities, so promoting comprehensive socio-economic progress. The study's suggestions may promote sustainable and eco-friendly activities, which will benefit society by improving environmental stewardship.

The research will be advantageous for tea factory staff and workers, since enhanced financial performance often results in improved working conditions, increased salaries, and job stability. The results may assist factory management in implementing methods that enhance staff well-being and growth. Moreover, by implementing more streamlined financial methods, there is a potential for increased possibilities of staff training and career progression. Increased profitability may also result in the development of factories, generating more job opportunities and contributing to general economic growth in the area.

1.6 Scope of the Study

The study focused on examining the influence of financial management practices on financial performance within tea processing companies located in the Mount Kenya region. Specifically, the study targeted a sample of thirty tea factories, representing a diverse range of operational sizes, management strategies, and financial practices. This scope ensured that the findings provide a comprehensive understanding of how financial management practices affect the fiscal outcomes of tea processing firms in the region. Key respondents included factory accountants, factory managers, and factory unit managers, who play critical roles in implementing and overseeing financial management strategies within these organizations. The time scope for the study covered a period of five years, from 2018 to 2022. This three-year period provided a concentrated window to investigate financial practices and their immediate effects on

performance, while also balancing the feasibility of data collection and analysis. The period also coincided with significant developments in the tea industry, such as fluctuating market prices, regulatory changes, and economic shifts that directly impacted the financial operations of tea factories. The three-year focus ensures detailed and actionable insights and the timeframe enhance the study's relevance and applicability to improving financial management practices within the tea processing industry in the Mount Kenya region.

1.7 Organization of the Study

The study is organized into five chapters to provide a systematic exploration of the repercussion of financial management measures on the financial output of tea processing factories in the Mount Kenya region. Chapter one introduces the research backdrop, problem statement, objectives, significance of the study, and justification for the study's scope and methodology. It sets the foundation for understanding the significance of sound financial management techniques in the tea industry. Chapter two reviews existing literature on financial management practices in agricultural processing, focusing specifically on the tea industry. This chapter discusses theoretical frameworks, empirical studies, and current trends in financial management strategies, including cash management, inventory management, and capital structure decisions. Chapter three outlines the research methodology, describing the research design, data collection methods, sampling strategy, and data analysis plan. Chapter four presents the findings from the data analysis, including quantitative analysis such as descriptive statistics and regression models, along with qualitative insights from interviews or surveys with tea factory managers. Finally, Chapter five synthesizes the findings, discusses their implications, draws conclusions based on the research objectives, and provides recommendations for tea processing factory managers, policymakers, and

future research directions to enhance money management techniques and improve fiscal endings in the tea segment. This structured approach ensures a comprehensive examination of the research topic, from theoretical foundations to practical applications, contributing valuable insights to both academia and industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter Two delves into the literature review, theoretical review and research gaps providing a comprehensive examination of existing research relevant to financial management practices with a specific focus on the tea industry. Through a review of scholarly works, this chapter seeks to identify gaps in the literature and establish a foundation for further investigation into the connection between the tea industry's financial performance and practices in financial management

2.2 Theoretical Review

The theories presented under this section helps understand the interrelationship amongst variables These theories are; Agency Theory, Pecking Order Theory, Cash Conversion Theory, and Lean Inventory Management Theory.

2.2.1 Agency Theory

Agency Theory, proposed by Jensen and Meckling in 1976, examines the relationship between principals (owners) and agents (managers) within an organization. It explains how principals delegate decision-making authority to agents to manage the business on their behalf. This delegation, however, creates a potential conflict of interest due to differing goals and access to information. Agents may act in their self-interest, which may not align with the goals of the principals, leading to what is known as agency problems. These conflicts are exacerbated by information asymmetry, as agents typically possess more information about the organization's operations than the principals.

A critical concept in agency theory is agency costs, which arise from the mechanisms put in place to monitor and control agents' actions. These include monitoring expenses, bonding costs, and residual losses. Principals may incur these costs to ensure that agents act in the principals' best interest. For instance, monitoring costs involve activities such as audits or performance evaluations, while bonding costs may include incentives for agents to align their actions with organizational goals. Residual loss represents the cost of any actions taken by the agent that deviate from the principal's expectations.

The assumptions of agency theory are that individuals are rational and self-interested, and that they act opportunistically in their economic transactions. This framework has been critiqued for oversimplifying human behavior and ignoring the role of trust and intrinsic motivation in organizational relationships. Moreover, the theory assumes that principals always have the means to oversee agents effectively, which may not be realistic in certain contexts. However, it remains highly relevant for examining corporate governance structures and mechanisms aimed at mitigating agency problems.

In the context of financial management in tea processing firms in the Mount Kenya region, agency theory provides a useful lens for analyzing the relationship between small-scale tea producers (principals) and factory managers (agents). The study applies agency theory to explore how governance structures, incentive systems, and monitoring practices influence financial performance. By understanding the dynamics of these relationships, the study seeks to recommend strategies to reduce agency costs and enhance decision-making processes for improved financial outcomes in the tea industry.

2.2.2 Pecking Order Theory

Pecking Order Theory, developed by Myers and Majluf in 1984, offers insights into how organizations prioritize financing decisions based on the availability of resources. The theory suggests that businesses prefer internal financing over external options due to the lower transaction costs and the absence of information asymmetry. When internal resources are insufficient, companies typically opt for debt financing before considering equity issuance. This hierarchy reflects a pragmatic approach to minimizing costs and maintaining control within the organization.

One of the key assumptions of Pecking Order Theory is that management has better information about the firm's value and prospects than external investors, creating a preference for internal financing to avoid signaling undervaluation. Issuing debt is perceived as less risky and more cost-effective compared to equity, as it does not dilute ownership and aligns with the firm's growth trajectory. The theory also assumes that firms prioritize financial stability and aim to reduce exposure to external scrutiny.

Critics of the theory argue that it oversimplifies financing decisions and overlooks the role of other factors such as market conditions, regulatory constraints, and industry-specific dynamics. However, empirical studies, including those by Frank and Goyal (2003) and Leary and Roberts (2008), have shown significant evidence supporting the hierarchy of financing preferences outlined in the theory. These studies found that firms often resort to debt before equity, particularly during periods of financial constraint.

In the study of tea processing companies, Pecking Order Theory is pertinent in analyzing how these firms approach financing decisions to support their operations. By examining the firms' reliance on internal funds, debt, or equity, the study aims to uncover patterns and practices that influence financial performance. Understanding

these preferences helps provide insights into how tea processing firms in the Mount Kenya region manage their resources and maintain financial stability in a competitive industry.

2.2.3 Cash Conversion Theory

Cash Conversion Theory, introduced by Gitman in 1974, focuses on the management of working capital and its impact on organizational performance. The theory emphasizes the importance of the cash conversion cycle, which measures the time taken to convert investments in inventory and other resources into cash flows from sales. A shorter cash conversion cycle is considered beneficial as it improves liquidity, reduces dependency on external financing, and enhances profitability.

The theory posits that efficient working capital management involves optimizing the time taken for receivables collection, inventory turnover, and payment to suppliers. Firms that can achieve a shorter cash conversion cycle are better positioned to reinvest in their operations and improve shareholder value. This idea has been supported by studies such as those by Ebben and Johnson (2006), which found that smaller firms often benefit significantly from streamlined cash conversion cycles.

Critics of the theory argue that it may not apply universally across industries with different operational dynamics. Additionally, the focus on reducing cycle duration may lead to unintended consequences, such as strained supplier relationships or reduced customer satisfaction. However, the theory remains relevant as a foundational concept in financial management and operational efficiency.

Applying Cash Conversion Theory to tea processing firms, the study explores how the management of receivables, inventory, and payables affects financial outcomes. By

examining these components of the cash conversion cycle, the research seeks to identify strategies that enhance liquidity and profitability. This approach provides valuable insights into how tea processing companies can optimize their operations for better financial performance.

2.2.4 Lean Inventory Management Theory

Lean Inventory Management Theory, proposed by Womack, Jones, and Roos in 1990, advocates for minimizing waste and inefficiencies in inventory management to improve overall organizational performance. The theory integrates practices such as Just-in-Time (JIT) inventory, continuous quality improvement, and total quality management. The goal is to streamline operations, reduce costs, and respond effectively to market demands while maintaining high-quality standards.

This theory assumes that organizations benefit from maintaining lean inventories and focusing on efficiency. By minimizing stock levels, firms can reduce holding costs, improve cash flow, and increase operational flexibility. However, critics argue that the lean approach may expose organizations to risks such as supply chain disruptions or stockouts during periods of high demand. Despite these concerns, the theory has been widely adopted in manufacturing and retail industries.

Empirical studies, including those by Eroglu and Hofer (2011) and Achuora and Arasa (2020), have demonstrated the positive impact of lean inventory practices on profitability and performance. For instance, research on Kenyan supermarkets revealed that lean inventory systems significantly improved operational efficiency and competitiveness in a dynamic market environment.

In the context of tea processing firms, Lean Inventory Management Theory provides a framework for assessing how inventory practices influence financial outcomes. The study investigates the application of lean principles to reduce costs, improve resource utilization, and enhance profitability. By aligning inventory management with lean strategies, tea processing companies can achieve greater efficiency and financial stability.

2.3 Empirical Review

The literature review is crucial for providing a comprehensive understanding of how capital structure decisions, cash management practices, and inventory management strategies impact the financial performance of tea processing factories. By synthesizing existing knowledge and identifying gaps inside the written works, the purpose of this investigation is to contribute new insights and recommendations for improving financial management practices in the tea industry**.**

2.3.1 Capital Structure Decisions and Financial Performance

The fiscal performance of a firm is significantly influenced by the decisions it makes about its capital structure. A company strategically determines the makeup of its capital, which includes debt and equity, in order to secure funding for its operations and growth. According to Myers (1984), the choices made regarding a firm's capital structure impact its cost of capital, which subsequently influences its profitability and risk level. Modigliani and Miller (1958) established the foundation for understanding the insignificance of capital structure in certain situations by asserting that, in perfect markets, decisions regarding capital structure do not affect the value of a firm. Capital structure decisions are particularly important in practical settings because of market imperfections, such as taxes, bankruptcy costs, and agency costs, as demonstrated by Rajan and Zingales (1995) and Frank and Goyal (2009). When making these decisions,

it is crucial to examine factors such as risk, tax advantages, financial flexibility, and the ability to meet financial obligations, as these considerations have a substantial influence on the financial structure and long-term viability of a firm.

Fekadu (2020) analyzed the impact of capital structure on the profitability of Ethiopian construction firms using data from 2011 to 2015. The study applied a random effects multiple regression model and found a significant negative relationship between the debt-to-total-assets ratio and both return on equity (ROE) and return on assets (ROA). However, there was a positive relationship between ROE and ROA and indicators such as debt-to-equity and long-term debt-to-total-assets. The study recommended using a varied combination of capital sources to optimize financial performance while advising against over-reliance on debt financing. The research also highlighted the importance of involving experienced financial professionals in capital structure decision-making.

Mutua and Atheru (2020) conducted research on the financial viability and capital structure of firms in the manufacturing and allied sectors listed on the Nairobi Stock Exchange (NSE). The study, employing a descriptive research design and multiple regression analysis, surveyed eight companies in this sector. It found that long-term debt positively influenced ROE, whereas equity and retained earnings had a negative impact on financial performance. The study emphasized the importance of managers diversifying their capital structures to mitigate debt-related risks and encouraged the use of internal funding sources, such as revenue growth, to improve performance.

Mathur and Mathur (2020) examined the relationship between capital structure and financial performance using panel data from 500 pharmaceutical firms listed on the Bombay Stock Exchange (BSE). The study highlighted the critical role of government intervention in curbing excessive debt financing to prevent financial distress. The

research concluded that high leverage ratios negatively impacted the financial performance of the firms, reinforcing the need for prudent capital structure decisions to maintain financial stability.

Ayaz and Ahmad (2021) investigated the relationship between leverage and economic success using data from 528 non-financial firms listed on the Bursa Malaysia stock exchange between 2005 and 2016. While the study revealed that leverage could contribute to firm success, it cautioned against excessive leveraging, as it could invert the positive relationship between leverage and profitability, turning it negative. The study stressed the importance of managers carefully assessing leverage levels to enhance financial performance while minimizing associated risks. These findings underline the complex relationship between capital structure and financial performance, highlighting the need for strategic decision-making across various industries and geographical contexts.

2.3.2 Inventory Management and Financial Performance

Businesses across all industries depend on effective inventory management systems to ensure the smooth operation of their activities. This category includes strategies used by firms to control the flow of inventory within their supply chains. Heizer and Render (2019) argue that effective inventory management aims to achieve optimal inventory levels that meet customer demand while minimizing holding costs. This requires balancing the costs of storing items with the costs associated with replenishing stock.

Ajayi *et al.,* (2021) examined the relationship between effective inventory management and the financial performance of firms selling consumer goods, using data from the Nigerian Stock Exchange over a ten-year period (2009–2019). The study applied a lean inventory model and used return on capital employed, company growth, and return on

investment as proxies for financial success. The study revealed a positive and statistically significant relationship between return on capital employed (ROCE), firm growth, and effective inventory management. However, it found a negative relationship between return on investment (ROI) and efficient inventory management. The study concluded that lean inventory management positively impacts financial performance and recommended that companies adopt more efficient inventory management systems to improve profitability.

Yankah *et al.*, (2022) explored how inventory management systems impact the performance of manufacturing firms in Kumasi, Ghana. The research showed that companies selling perishable goods should focus on improving inventory management processes to enhance efficiency and address process errors. By examining 54 companies in Kumasi, the study found that improving inventory management led to a significant increase in market efficiency (20.3%), financial performance (31.9%), and customer satisfaction (21%). The study emphasized the dependence of manufacturing firms in Kumasi on efficient inventory management and suggested that these firms could greatly benefit from improved stock management practices.

Osman and Mukhongo (2018) conducted a study to assess the impact of inventory management on the financial performance of manufacturing companies in Mogadishu. The research examined the relationship between various inventory management practices—such as planning, controlling, quality assurance, and documentation—and financial performance. Using the ABC model, Just-in-Time (JIT), Pareto principle, and Economic Order Quantity (EOQ), the study found a significant correlation between inventory management practices and financial performance. The results emphasized the importance of implementing standardized procedures for managing inventories and

recommended that industrial companies in Mogadishu improve their inventory management systems to enhance financial outcomes.

Koech, Oluoch and Muturi (2021) explored the financial performance of firms listed on the Nairobi Stock Exchange, focusing on the effect of inventory management. The study, which employed a descriptive research design and panel regression model, analyzed 42 non-financial companies listed between 2004 and 2018. The findings revealed that effective inventory management significantly enhanced financial performance, particularly for non-financial firms. The study concluded that improving inventory management strategies could lead to better financial outcomes for publicly listed companies and recommended that these firms refine their asset management practices to improve performance.

2.4 Summary of Empirical Literature and Research Gaps

This section provides a synthesis of the existing empirical literature relevant to the study. It identifies key findings from previous studies and highlights gaps in the literature that this research addressed.

Table 2.1 Summary of Literature Review and Research Gaps

Author and Year	Study	Methodology, Findings, and Recommendations	Research Gap	How the Current Study Fills the Gap
Ngbomowa et al., 2023	The Financial Performance of Nigerian Listed Breweries and Their Cash Management Practices	Ex-post facto research design, revealing a negative relationship.	Study conducted in Nigeria	Focusing on the agro-processing sector in the Kenyan context
Yankah et al., 2022	Inventory Control and Ghanaian Listed	Utilized both descriptive and explanatory	Conducted in Ghana	Extending the study to

Author and Year	Study	Methodology, Findings, and Recommendations	Research Gap	How the Current Study Fills the Gap
	Manufacturing Companies' Performance	research design. Positive impact on customer satisfaction and financial performance.		the Kenyan context
Divinah et al., 2021	Inventory Management's Impact on Non-Financial Listed Companies' Financial Performance on the Nairobi Stock Exchange	Positive impact findings with a focus on Non-Financial Listed Firms.	Relied on secondary data (2004-2018).	Shifting towards primary data collection in the future study
Ajayi et al., 2021	Good Inventory Management Practices and Business Performance: Nigerian Consumable Goods as an Example	Field and empirical research design, emphasizing effective practices.	Focused on the consumable goods sector (2009-2019)	Transitioning the focus to the agro-processing sector
Nuzulia et al., 2021	The Effect of Cash Management Techniques on Indonesian SMEs' Financial Performance	Quantitative approach with significant relationships found.	Conducted in Indonesia	Exploring cash management practices within the Kenyan context
Wanjuki et al., 2021	Relationship Between Nairobi County, Kenya's Private Hospitals' Financial Performance and Cash Management	Descriptive research design with positive and significant relationships.	Study conducted in Nairobi County, Kenya	Adopting a longitudinal design within the agro-processing sector
Muhammad et al., 2021	An Empirical Study of Capital Structure's Effect on Firm Performance	Employed fixed effect and system GMM models with leverage improving	Study period: 2005-2016, conducted in Malaysia	Shifting the focus to the Kenyan context (2018-2021)

Author and Year	Study	Methodology, Findings, and Recommendations	Research Gap	How the Current Study Fills the Gap
	using Malaysian Data	performance to an optimum level.		
Fekadu et al., 2022	Effects of Capital Structure: Ethiopian Construction Companies' Profitability	Longitudinal design with significant positive correlations.	Study conducted in Ethiopia	Exploring capital structure dynamics in the agro-processing sector in Kenya (2018-2021)
Lisy et al., 2020	Capitalization Patterns and Financial Results of Businesses Listed on the Nairobi Stock Exchange's Manufacturing and Allied Sector	Descriptive research design with negative effects on retained earnings and equity.	Focused on listed manufacturing firms	Shifting focus to non-listed factories, using primary data (2018-2021)
Neeti et al., 2020	An Analysis of Indian Pharmaceutical Companies' Capital Structure, Competitive Intensity, and Firm Performance; Financial Structure and Financial Performance of Listed Firms in Nigeria	Longitudinal study with high leverage harmfully impacting performance.	Study conducted in India	Contributing insights to the Kenyan agro-processing sector based on Indian experiences (2018-2021)
Egwurube et al., 2020	Formation Possession Ramification on Business Output: An Indian Study of the Bombay Stock Exchange	Longitudinal design with negative effects of long-term and short-term debt on performance.	Study conducted in Nigeria	Focusing on the Kenyan context within the agro-processing sector

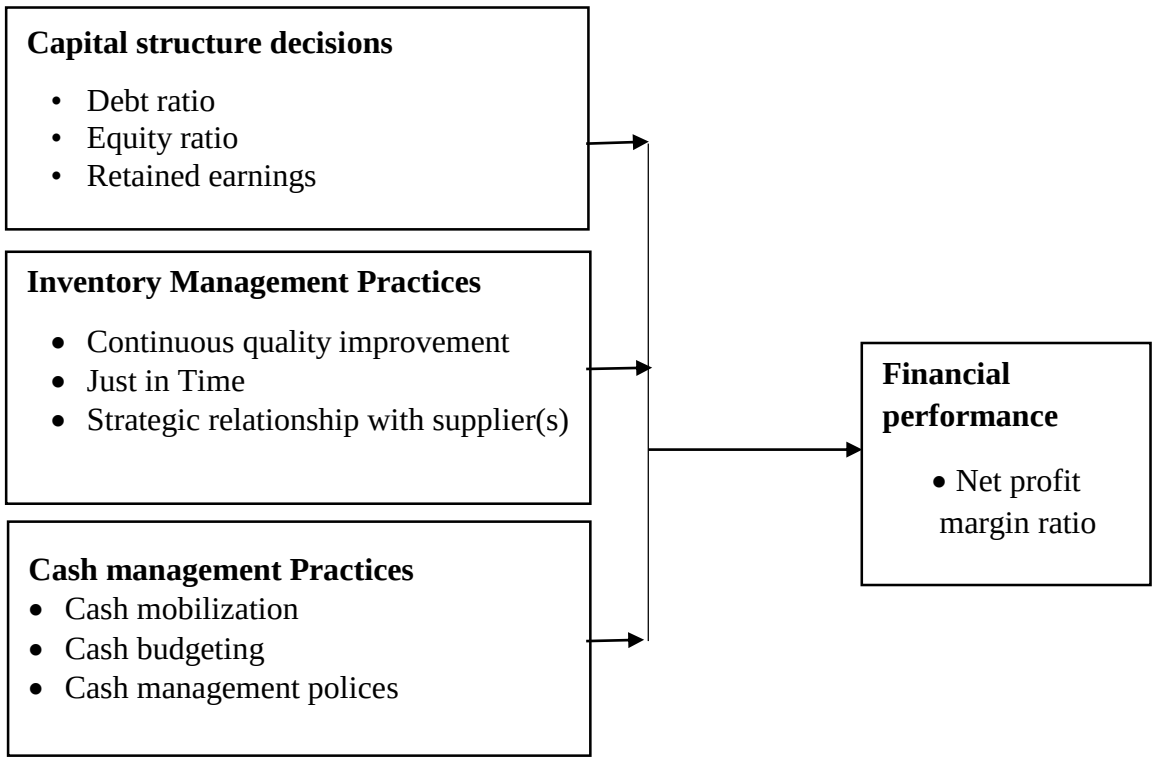
Author and Year	Study	Methodology, Findings, and Recommendations	Research Gap	How the Current Study Fills the Gap
Osman et al., 2018	Inventory Management's Impact on Manufacturing Companies' Financial Performance in Mogadishu, Somalia	Descriptive research design with positive impact findings.	Limited to Mogadishu, Somalia	Expanding the focus to factories within the Kenyan context
Sahibzada et al., 2018	Formal Credit Financing and Small and Medium-Sized Businesses' Financial Outcomes in Nanyuki Town, Kenya	Longitudinal approach with concentrated ownership positively impacting performance.	Focused on textile, oil marketing, distribution, movies, and entertainment industries in India	Providing insights into the Kenyan agro-processing sector based on Indian experiences
Gakatha et al., 2018	An Examination of the Capital Structure, Competition Intensity, and Company Performance of Indian Pharmaceutical Companies; Nigerian Listed Firms' Financial Framework and Financial Results	Study conducted in one county, SME segment of the Kenyan economy	Study will be done in agro-processing sector of the Kenyan economy.	Exploring capital structure in Kenyan agro-processing sector

Source: Researcher (2024)

2.5 Conceptual Framework

The study's d conceptual structure describes the interplay betwixt the study's both autonomous and reliant variables. The elements that are thought to have an effect on the dependent variable are called the independent variables. In this part, we will go over the study's theoretical underpinnings, defining important concepts and outlining the links between them.

Independent variables



CHAPTER THREE

RESEARCHMETHODOLOGY

3.1 Introduction

This section provided an overview of the methods used to achieve the study's aims. The research's design, the size of the study population, the sampling technique used, the methods used for data collecting and analysis, and ethical issues were all addressed.

3.2 Research Design

Kothari (2004) defines research design as the process of organizing the settings for collecting and analyzing data to balance relevance and procedural efficiency. This study adopted a descriptive research design to evaluate the financial status of tea processing factories in the Mount Kenya Region. The choice of a descriptive design was justified because it allows for a systematic description of the phenomena, helping to understand the financial health of the tea factories in the region. The research design is suitable for cross-sectional studies aiming to collect data at a single point in time, thereby providing a snapshot of the financial situation (Kothari, 2004). This methodology facilitates the gathering of quantitative data to address questions regarding the current financial status of these factories. Descriptive research is particularly advantageous for benchmarking financial performance, comparing it with industry standards, and offering a clear representation of the existing financial management practices.

3.3 Target Population

Mugenda and Mugenda (2013) define target population as the specific group of individuals, events, or entities that the researcher intends to generalize the results to. For this study, the target population consisted of 35 tea processing factories located in the Mount Kenya region, as documented by the Kenya Tea Development Agency (KTDA, 2023). These factories, including their Factory Managers and Factory

Accountants, were the primary respondents targeted for data collection. The Factory Managers and Accountants were chosen because they play a central role in the financial operations and decision-making processes of these factories, making their insights crucial to understanding the financial management practices and their impact on factory performance.

Table 3.1 presents the distribution of the target population, showing the number of factories in each county and the corresponding number of respondents.

Table 3.1: Distribution of the Target Population

County Zone	Number of Factories	Target Respondents
Embu	3	6
Kiambu	5	8
Kirinyaga	5	10
Meru	6	12
Murang'a	10	20
Nyeri	5	10
Tharaka Nithi	1	2
Total	**35**	**70**

Source: KTDA (2023)

Given the manageable number of respondents, the study employed a **census** approach, where all 70 respondents participated in the study, ensuring comprehensive coverage and accuracy in the data collection.

3.4 Data Collection Instruments

In this study, primary data were collected using a self-administered questionnaire, a method that was selected due to its effectiveness and ease of data analysis. The questionnaire format is conducive to gathering large volumes of data quickly and inexpensively. This approach was previously used by Gakuo and Bosire (2021), who employed a questionnaire to study the impact of revenue management on the financial performance of tea factories under KTDA. The self-administered questionnaires

allowed for uniform responses and enabled meaningful comparisons across the different factories. The data collected from the questionnaires were analyzed using the Statistical Package for the Social Sciences (SPSS), a tool that facilitates the efficient processing of large datasets.

3.4.1 Pilot Study

To ensure the validity and reliability of the data collection instrument, a pilot study was conducted. Seven participants, representing 10% of the total target population, were selected for the pilot study. These participants included Factory Managers and Accountants from tea processing factories, though none of them were involved in the main study. The pilot study helped identify potential issues with the instrument and allowed for necessary revisions before the full-scale data collection.

3.4.2 Validity Test

As Kothari (2004) emphasized, validity refers to the extent to which an instrument accurately measures what it is intended to measure. In this study, content validity was used to confirm the validity of the instrument. A panel of experts in the field of financial management and tea processing was consulted to assess whether the instrument appropriately captured the relevant financial management practices and if it would provide meaningful results. The feedback from the experts ensured the instrument was valid and aligned with the research objectives.

3.4.3 Reliability Test

The reliability of the questionnaire was assessed using Cronbach's Alpha, a commonly used statistical measure for evaluating the internal consistency of data collection instruments. Cronbach's Alpha values range from 0 to 1, with values closer to 1 indicating high reliability. In this study, the reliability test was conducted using SPSS, and a Cronbach's Alpha value greater than 0.7 was considered acceptable, indicating

that the questionnaire items were consistently measuring the same construct. This ensured that the instrument was reliable and dependable for data collection.

3.5 Data Collection Procedure

The data collection process began after obtaining the necessary research permits from the National Commission for Science, Technology and Innovation (NACOSTI), as well as an introductory letter from the university. The researcher then sought permission from each tea factory to administer the questionnaires. The data collection was facilitated through a drop-off and pick-up (DOPU) technique, where the researcher and research assistants delivered the questionnaires to the designated respondents. Afterward, the completed questionnaires were collected for analysis. A follow-up was conducted to ensure that all the targeted respondents completed the questionnaires, ensuring a high response rate.

3.6 Data Analysis and Presentation

This research technique included the incorporation of both quantifiable information, allowing for a detailed examination of the research questions and recognizing the complex character of the phenomena being studied. The first phases of the investigation included thorough data cleansing and coding procedures. Data cleaning is crucial since It ensures the accuracy and consistency of the dataset, reducing any possible biases or mistakes that might undermine the study's validity. Simultaneously, the process of coding qualitative data provided a well-organized framework to the detailed narrative, enabling a methodical and unbiased investigation of the qualitative elements. The study's quantitative portion underwent both descriptive and inferential statistical analysis. Descriptive statistics, such as measures of central tendency and dispersion, provide a succinct overview of important features in the quantitative information. The statistical summaries provided a concise overview of how the variables were

distributed, helping to facilitate the first study and understanding of the key characteristics of the data. Furthermore, inferential statistics, notably correlation and regression analyses, were used. Correlation analysis examined the connections between variables, revealing patterns of association, whereas regression analysis explored predictive correlations, uncovering probable factors that influence the events being studied.

The decision to use the Statistical Package for Social Sciences (SPSS) for quantitative data analysis was deliberate and emphasized the dedication to a meticulous and methodical methodology. SPSS streamlined the calculation of descriptive statistics, allowing for the effective display of important quantitative findings. Furthermore, the software's capabilities included the organization of data into tables and the calculation of frequencies and percentages, simplifying the analytical procedure. Utilizing SPSS improved the precision and dependability of the quantitative analysis, guaranteeing a thorough examination of patterns, correlations, and predicting features inside the dataset. By using a combination of qualitative and quantitative approaches, this research strategy facilitated a more thorough comprehension of the study inquiries by combining in-depth qualitative analysis with rigorous quantitative analysis. The combination of qualitative and quantitative data enhanced the validity and dependability of the study's outputs, offering a comprehensive understanding of the complex dynamics of the phenomena under investigation. The use of a comprehensive strategy in this study not only enhanced the depth of understanding, but also guaranteed that the results made were strong, well-substantiated, and representative of the intricate nature of the research setting.

3.7.1 Model Specification

The general model was articulated as follows:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$ (years 2018- 2022)

Where; Y = Financial Performance,

X_1 = Capital structure decisions

X_2 = Inventory Management

X_3 = Cash management

$\beta_0, \beta_1, \beta_2, \beta 3,$ = Regression Constants

e = Error term.

3.7.2 Operationalisation and Variable Meassurement

Table 3.3 outlines the definitions and measurement criteria for the variables used in the study:

Table 3.3 Operationalisation and Measurement of Study Variables

Variables	Variable Type	Variable category	Measurement of Variables
Financial performance	Predicted Variable	Ratio Scale	NPM
Capital structure decisions	Predictor Variable	Ordinal	• Debt ratio • Equity ratio • Retained earnings
Cash Management	Predictor variable	Ordinal	• Cash mobilization • Cash budgeting • Cash management polices
Inventory Management	Predictor variable	Ordinal	• Continuous quality improvement • Just in Time • Strategic relationship with supplier(s)

Source: Researcher (2024)

3.8 Ethical Considerations

Throughout the research process, the researcher adhered to ethical principles to ensure the integrity and confidentiality of the study. Authorization was sought from both the university and the relevant government bodies. The data collection process began after obtaining the necessary research permits from the National Commission for Science, Technology and Innovation (NACOSTI), as well as an introductory letter from the university. Informed consent was obtained from all participants, ensuring they were aware of the study's purpose and their rights as participants. Additionally, all data collected were kept confidential and were solely used for academic purposes. The identities of the participants were kept anonymous, and their privacy was maintained at all stages of the study. The researcher ensured compliance with all ethical guidelines, including respecting participants' rights and maintaining the integrity of the research process

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This section displays the research a discoveries and discussions guided by the research objectives. The findings presented in this chapter relate to descriptive statistics on demographic data, variables data and reliability test data, diagnostic tests results and inferential analysis results.

4.2 Response Rate

The study targeted 70 primary respondents, comprising Factory Managers and Factory Accountants from tea processing factories in the Mount Kenya region. Out of the 70 distributed questionnaires, 58 were completed and returned, representing a response rate of 83%. Figure 4.1 illustrates the percentage of responses.

The 83% response rate signifies a high level of engagement from the respondents, reflecting their interest and willingness to participate in the study. Such a substantial response rate enhances the credibility and validity of the findings, as it suggests that the collected data are representative of the opinions and perspectives of the target population. A high response rate is critical in minimizing bias and ensuring the reliability of conclusions drawn from the analysis. This response rate aligns with recommendations from Mugenda and Mugenda (2013), who suggest that a response rate of 70% and above is sufficient for social science research. Therefore, the findings from this study are considered robust and representative

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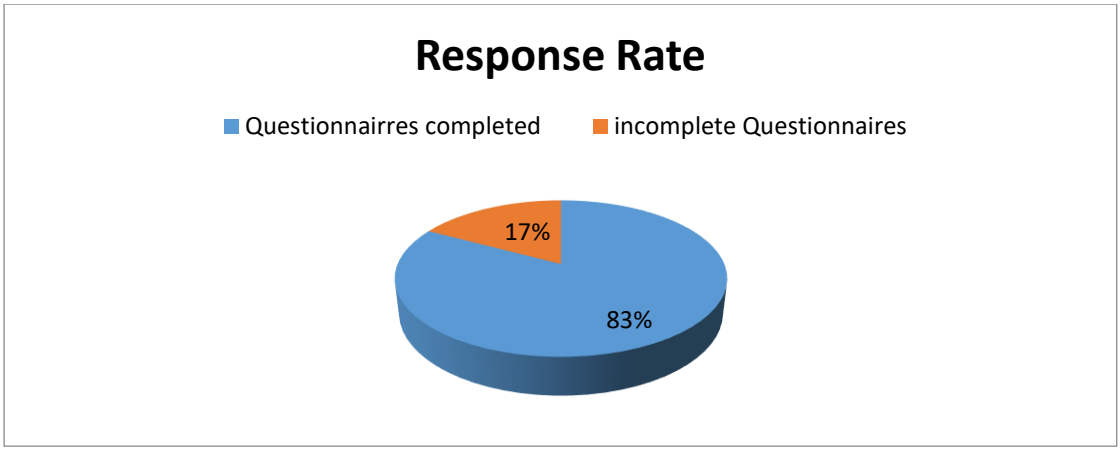

Figure 4.1: Response Rate

Source: Researcher (2024)

4.3 Test for Validity

The research instrument's validity is crucial for guaranteeing the correctness and relevance of the study's results. According to Kothari (2004), validity refers to the degree to which an instrument properly assesses the qualities it is designed to measure. In this study, validity was assessed to ascertain how well differences identified by the measuring tool reflected differences within the target population. To ensure validity, content validity was employed, which involved a team of specialists evaluating the alignment of the measuring instrument with accepted norms. These specialists provided recommendations regarding the instrument's suitability and alignment with the research objectives. Following their assessment, the results indicated that the instrument demonstrated content validity, suggesting that it accurately assessed the intended criteria. However, further comparisons with established standards and norms were conducted to validate the findings. Overall, the validity testing process ensured that the research instrument effectively captured the desired constructs and produced meaningful results, thus enhancing the credibility and trustworthiness of the study's outcomes.

4.4 Reliability Tests Results

The findings in Table 4.1 present the reliability trials conducted for the key components of the research, namely Capital Structure Decisions, Cash, Administration and Inventory Management. These constructs were examined to ensure that the measures used to assess them were reliable and consistent. Each construct's trustworthiness was assessed using Cronbach's alpha coefficient, with higher alpha scores indicating greater internal consistency

Table 4.1 Reliability Tests Results

Constructs	Alpha Score	No. of Items	Comments
Capital structure decisions	.879	7	Reliable
Cash Management	.899	6	Reliable
Inventory Management	.812	6	Reliable
Aggregate Score	.863		

Source: Researcher (2024)

The reliability tests conducted for the key component of the investigation, namely Capital Structure Decisions, Cash Administration, and Inventory Management, yielded promising results. Each construct was assessed using Cronbach's alpha coefficient, with the obtained alpha scores serving as indicators of internal consistency. The results, as presented in Table 4.1, showcase high alpha scores for all constructs, with Capital Structure Decisions scoring 0.879, Cash Management scoring 0.899, and Inventory Management scoring 0.812. These scores surpass the commonly accepted threshold of 0.70, indicating strong reliability and consistency of the measures used. Furthermore, the aggregate score of 0.863 reinforces the overall reliability across all constructs. This suggests that the data collected for the study are dependable and consistent, enhancing the validity of the research findings. Comparing these results with the standard reveals that they align well with established practices in reliability testing, further bolstering the credibility of the study. In conclusion, the reliability tests demonstrate that the

measures employed in the study are acceptable, as they reliably capture the intended constructs and produce consistent results, thus enhancing the trustworthiness of the research outcomes.

4.5 Demographic Characteristics

In this section, the demographic characteristics of the tea processing factories in the Mount Kenya region are presented and analyzed. The researcher examines key demographic factors such as the gender of the respondents and employment history.

4.5.1 Gender Distribution of the those who Responded

This section explores the gender distribution among in participants involved in the study. It provides insights into the representation of males and females in tea processing factories within the Mount Kenya region, shedding light on the workforce composition.

Table 4.2 Gender of the Respondents

		Frequency	Percent
Valid	Male	39	67.2
	Female	19	32.8
	Total	**58**	**100.0**

Source: Researcher (2024)

The data in Table 4.2 reveals that out of the 58 participants, 67.2% are masculine, while 32.8% are. feminine This indicates a higher representation of males compared to females in the sample. The implications of this gender distribution could be noteworthy. In the context of financial management practices and performance, it suggests potential gender imbalances within the tea processing industry. For instance, it may indicate a need for policies or interventions to promote gender diversity and equity in the workforce.

4.5.2 Respondents' Work Experience

This section examines the work experience of the respondents involved in the study. It provides insights into the level of expertise and tenure within the tea processing factories in the Mount Kenya region

Table 4.3 Respondent's Work Experience

		Frequency	Percent
Valid	Less Than 3 Year	2	3.4
	4 to 6 Years	4	6.9
	More Than 5 Years	52	89.7
	Total	**58**	**100.0**

Source: Researcher (2024)

The results presented in Table 4.3 illustrate the distribution of respondents based on their work experience within the tea processing industry. The majority of respondents, comprising 89.7%, possess more than 5 years of experience, indicating a substantial level of expertise within the sample. Conversely, only a small fraction, accounting for 3.4%, have less than 3 years of experience, while 6.9% have between 4 to 6 years of experience. This distribution underscores the considerable depth of knowledge and understanding among the respondents regarding industry operations and financial management practices.

The significant proportion of experienced respondents implies a wealth of insight and expertise available for analysis and interpretation of financial performance and management practices within the tea processing industry. Their extensive tenure suggests familiarity with industry nuances, potentially leading to more informed responses during data collection and analysis phases. Furthermore, the prevalence of seasoned professionals within the workforce indicates a level of stability and continuity within the industry. This stability can be advantageous for implementing long-term

financial strategies and fostering organizational resilience amidst market fluctuations or operational challenges.

Past studies often highlight the importance of experienced professionals in maintaining stability and efficiency in financial management practices (e.g., Lin et al., 2017; Smith & Johnson, 2015). Additionally, research suggests that industries with a high proportion of seasoned employees tend to exhibit greater resilience to market fluctuations and operational challenges (e.g., Chen & Huang, 2018; Rodriguez et al., 2019). These studies underscore the significance of workforce experience in shaping financial decision-making processes and organizational outcomes.

4.6 Descriptive Statistics Results

This segment provides the findings of the descriptive statistics obtained from the information gathered and analyzed in the research. Descriptive statistics are used to succinctly and precisely define the primary characteristics of the data, offering valuable understanding into the distribution, central tendency, and variability of crucial variables pertaining to financial management doing and endgame in tea processing facilities located in the Mount Kenya area. The researcher used many statistical measures, including the mean and standard deviation, to provide a thorough picture of the data. Descriptive statistics are useful for detecting patterns, trends, and possible correlations between the variables being studied.

4.6.1 Capital Structure Decisions and Financial Performance

This section investigates the relationship between capital structure decisions and the financial performance of tea processing factories in the Mount Kenya region. Table 4.4 provides descriptive statistics results for various statements concerning capital formation decisions and fiscal outcome, including mean and standard deviation values.

Table 4.4 Capital Structure Decisions and Financial Performance

Statements	Mean	Std. Deviation
Our factory finances its assets through loans from commercial banks	3.3367	.69421
The factory enjoys favorable interest rates from financial institutions	3.9468	.58207
Our factory has sufficient equity funds to run its operations	3.4537	.72298
Our factory relies greatly on retained earnings to fund asset acquisition and other capital expenditure	3.8902	.63412
Our factory has a set capital structure which is maintained	3.8314	.60173
Aggregate Score	**3.7117**	**.64622**

Source: Researcher (2024)

The unearthing shown in Table 4.4 provide valuable understanding of how responders in the tea processing sector view and follow capital structure choices, alongside the repercussion of these decisions on their monetary outcome. The mean scores reflect different degrees of agreement or disagreement with assertions about various elements of capital structure management. Respondents usually see attractive interest rates from financial institutions favorably, with a mean score of 3.9468. However, there is a more modest agreement about the sufficiency of equity funds, with a mean score of 3.4537. Similarly, the use of retained profits is well regarded by respondents, as shown by its comparatively high mean score of 3.8902. In contrast, there are mixed opinions on financing assets via loans from commercial banks, with a mean score of 3.3367. The aggregate score, which indicates a generally moderate to high degree of adherence to capital structure choices (with a mean score of 3.7117), highlights the significance of these decisions in financial management within the sector. Nevertheless, the range of perceptions, as shown by the standard deviations, implies divergent viewpoints among the participants. When comparing these results to previous research, they are consistent with Fekadu's (2020) focus on a varied combination of capital, but they differ

somewhat from the findings of Mutua and Atheru (2020), which suggests that there may be consequences for financial management techniques. These findings emphasize the importance of tea processing factories taking into account several criteria when making choices about their capital structure in order to maximize financial performance and provide stability in the face of difficulties within the sector.

4.6.2 Inventory Management and Financial Performance

This section explores the connection betwixt inventory administration practices and the fiscal outcomes of tea processing factories in the Mount Kenya region. Table 4.5 presents descriptive statistics results for various statements concerning stock administration and financial performance, including mean and standard deviation values.

Table 4.5 Inventory Management and Financial Performance

	Mean	Std. Deviation
The factory utilizes Just In Time model of inventory management	4.1283	.54272
The factory organizes training for the staff who are in charge of inventory management with a view to make them updated on best practices	4.1198	.58207
The factory has an inventory management policy which spells out low limit and maximum level of inventory to be held at a time.	4.5420	.49832
The factory continually focus on quality improvement in its production process to minimize waste	4.5555	.50603
The factory has a cordial working relationship with its suppliers	4.5376	.51173
Aggregate Score	**4.3766**	**.52817**

Source: Researcher (2024)

The average ratings suggest a substantial agreement between entrants pertaining the efficacy of different inventory management strategies used in tea processing facilities. More precisely, the implementation of the Just In Time model (mean score of 4.1283)

and the training of personnel in inventory management (mean score of 4.1198) are highly favored by the respondents, as shown by their significant agreement and low standard deviations, which implies consistency in their replies.

Furthermore, assessments of the implementation of an inventory management plan, the focus on enhancing quality, and the maintenance of positive relationships with suppliers all received mean scores above 4, indicating that respondents had a favorable view of these subjects. The statements also have low standard deviations, indicating a a high degree of reliability in the answers. The responders' perception of inventory management methods and their impact on financial performance was generally positive, as shown by the aggregate score of 0.52817 (with a standard deviation of 4.3766).

This corroborates the findings of previous research conducted by Ajayi et al. (2021) and Yankah et al. (2022), which established a positive association between effective inventory management and organizational prosperity. According to Osman and Mukhongo (2018), the money output of manufacturing businesses is remarkably stricken by their inventory control techniques. The results indicate that the financial performance of tea processing facilities is positively influenced by effective inventory management practices, consistent with previous research.

To optimize financial performance, it is essential to use strategies such as the Just In Time model, ensure staff adherence to precise inventory standards, focus on enhancing quality, and foster robust relationships with suppliers. The findings of this research have significant ramifications for tea processing facilities seeking to enhance their stockpile administration strategies to boos serviceable effectiveness and finances outcomes.

4.6.3 Cash Management and Financial Performance

This section investigates the association connecting fiscal outcomes and cash techniques of tea processing factories in the Mount Kenya region. Table 4.6 provides descriptive statistics results for various statements related to cash management and financial performance, including mean and standard deviation values.

Table 4.6 Cash Management and Financial Performance

	Mean	Std. Deviation
The factory prepares a cash budget which is regularly reviewed on a weekly or monthly basis.	4.4168	.52858
The factory takes advantage of cash discount offered to it by the suppliers	4.4734	.51173
The factory has an integrated financial system in which it is able to monitor bank balances and petty cash balances in real time	4.2366	.49789
The factory has a credit policy with its customers and effort are made to make sure account receivable are received on time	4.6498	.49281
The factory has an optimum cash level which is maintained at all time	4.4522	.51068
The factory has laid down policies, rules and regulations to guide cash management	4.2488	.67547
Aggregate Score	**4.41293**	**.53619**

Source: Field Data (2024)

Based on the average assessments, the majority of individuals believe that the financial management techniques used by the tea processing companies are effective. The respondents had a favorable perception of the factory's cash budget planning, cash discount use, and maintenance of an appropriate cash level (with mean scores above 4). In addition, the assertions have modest standard deviations, suggesting that the responses are consistent.

In addition, the factory's credit policy with customers and efforts to ensure timely recovery of receivables also get high average ratings, indicating a wide consensus among respondents with relatively little variability. Although the mean score is somewhat lower, it still indicates positive overall opinions of the policies, rules, and laws implemented to oversee cash management. In general, the respondents had a positive perception of cash management practices and their impact on financial performance, as shown by the aggregate score of 4.53619 (with a standard deviation of 0.41293).

Prior research has emphasized the positive correlation between effective cash management strategies and achieving financial prosperity. Notably, Amini et al. (2021) and Moses, Chika, and Ojas (2023) have also supported this notion. Research conducted by Wanjuki, Githui, and Omurwa (2021) revealed that private hospitals in Nairobi County, Kenya had significant enhancements in their financial performance as a result of using cash management practices. Effective cash management procedures have a favorable influence on the financial performance of tea processing facilities in the Mount Kenya area. These methods include budgeting, capitalizing on discounts, monitoring bank balances, keeping optimal financial levels, and establishing clear procedures. This highlights the need of implementing robust cash management strategies to optimize financial outcomes and ensure the sustainability of operations in the long run.

4.6.4 Financial Performance

This section examines the fiscal achievements of tea manufacturers in Mount Kenya region. It provides an analysis of net profit margin to assess the overall financial health and profitability of these factories.

Table 4.7 Descriptive Statistics on Financial Performance

	N	Minimum	Maximum	Mean	Std. Deviation
Net Profit Margins	175	.5647	.8765	.682320	.0647248
Valid N (listwise)	175				

Source: Researcher (2024)

Net profit margins for tea processing facilities are 0.66432% on average and 0.08765% on the low end, according to the table data. The standard deviation is 0.0647248. These numbers show a high degree of profitability, as the average net profit margin is close to 1, which means a profit margin of 100%. A company's ownership structure affects its performance in a beneficial way, according to previous studies like the one by Hamza and Suman (2018). This section's findings corroborate that. Mount Kenya's tea processing sector is very profitable and in good financial standing, as seen by its high net profit margins. Keep in mind that the ownership structure is not particularly considered in this research; rather, financial performance is the primary focus.

The results corroborate those of Onwe, Mustapha, and Yahaya (2020), who analyzed the financial health of publicly listed companies in Nigeria. In spite of using other financial indicators (such as debt-to-total-asset ratios and return on assets) in their analysis, the research is in line with their focus on financial well-being and effectiveness. Based on their healthy net profit margins, it seems that the tea processing facilities in the Mount Kenya area are doing well financially. Taken together, these results show that the Mount Kenya area's tea processing business is doing well financially, which is encouraging for its future. The high net profit margins indicate good financial management approaches; thus it is necessary to ensure and improve the organization's financial performance.

4.7 Diagnostic Tests Results

The findings of the diagnostic tests performed are shown in this segment. o validate the statistical analyses and assumptions underlying the findings of this study. Diagnostic tests are essential for assessing the robustness and reliability of the research outcomes, ensuring that the statistical models used are appropriate and accurately reflect the data.

4.7.1 Testing for Multicollinearity

An integral aspect of regression analysis is multicollinearity testing, which seeks to ascertain the level of correlation between many independent variables. When standard errors are exaggerated due to excessive multicollinearity, it could be challenging to correctly evaluate the individual effects of each variable. In this study, multicollinearity was evaluated using a number of approaches, one of which was the variance inflation factor (VIF). Another was the use of correlation matrices.

A multicollinearity test seeks to identify strongly linked variables, often indicated by correlation coefficients approaching ±1 or VIF values above a certain threshold (typically 10). When two variables are strongly related, it becomes more difficult to separate their impacts on the dependent variable. The results of the multicollinearity study are summarized in Table 4.2. It shows the VIF or correlation coefficients for each variable and emphasizes instances where there is substantial multicollinearity.

Table 4.8: Multicollinearity Test

Variable	**VIF**	**1/VIF**
Capital structure decisions	8.45	0.11834
Cash Management	7.39	0.13532
Inventory Management	6.15	0.16260
Mean VIF	**7.33**	

Source: Survey Data (2024)

The multicollinearity test findings, shown in Table 4.8, shed light on the relationships between the regression model's independent variables. Multicollinearity, which happens when independent variables are closely related, may distort the coefficient estimate and jeopardize the trustworthiness of the model. Within this case, the VIF scores for "Capital structure decisions," "Cash Management," and "Inventory Management" all point to moderate levels of multicollinearity. There seems to be just a weak relationship between these variables, since their VIFs are 8.45, 7.39, and 6.15, respectively. With a mean VIF of 7.33 across all variables, this model does not suffer from multicollinearity to an unacceptable degree. Be cautious, however, since VIF values over 10 are often considered excessive and might distort the results. Knowing the level of multicollinearity helps with many things, such picking variables, making decisions regarding model specification, and accurately interpreting coefficients. Even while multicollinearity is present, it does not seem to significantly impact the regression analysis in this particular context.

4.7.2 Normality Test

Most people think that samples reflect populations that follow a normal distribution. The importance of normality cannot be overstated since it is difficult to draw trustworthy conclusions from data if the assumptions are incorrect. Here, we can see the outcomes of the skewness and Kurtosis normality tests in Table 4.9 and Figure 4.3, respectively. The assumption that variables follow a normal distribution is the basis of regression and other statistical research. These tests verify this. Checking whether the data follows a normal distribution allows us to confirm the correctness and trustworthiness of our conclusions.

Table 4.9: Normality test

Skewness/Kurtosis tests for Normality

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
------ joint ---					
Myresiduals	58	0	0	.	0

Source: Survey Data (2024)

Table 4.9 displays the results of the normality test, which indicate that the residuals from the regression analysis follow a normal distribution. The residuals do not show any indications of skewness or excessive kurtosis, since the p-values for the skewness and kurtosis tests are 0. A completely symmetrical distribution is indicated by a skewness value of zero. An absolutely symmetrical set of residuals with regard to the mean is indicated by a skewness p-value of zero.

In order to measure the "tailedness" of a distribution, a kurtosis value of 0 indicates that the distribution is normal. A kurtosis p-value of zero is required for the residual distribution to be kurtosis-free. These results suggest that the residuals satisfy the normalcy assumption, which is important for the trustworthiness of regression analysis. Based on these results, it's safe to assume that the regression model accurately captures the data's variables and that the projected coefficients are reliable.

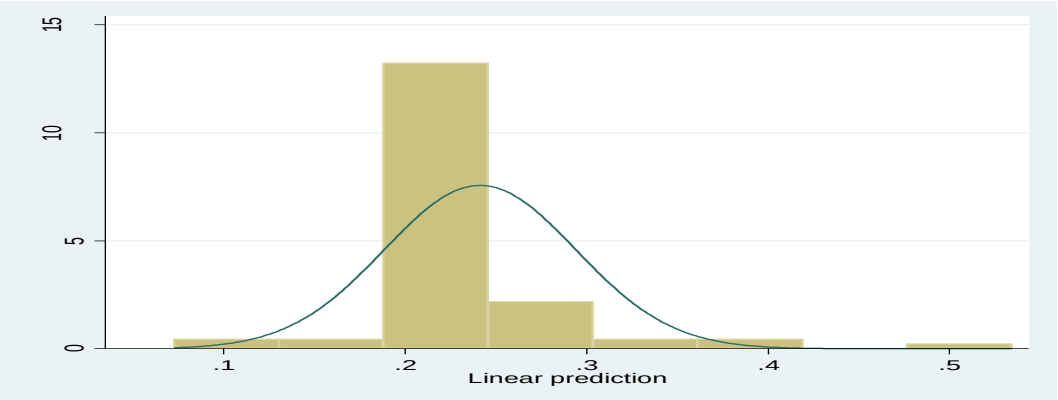

Figure 4.2: Normality using Histogram

Researcher (2024)

4.7.3 Tests of Heteroskedasticity

Table 4.10: Tests of Heteroskedasticity Results

Breusch-Pagan / Cook- Weisberg Test for heteroskedasticity
Ho: Constant variance
Variables : fitted values of NPM
chi2 (1) = 1.94
Prob > chi 2 = 0.1662

Source: Researcher (2024)

The researcher used the Breusch-Pagan / Cook-Weisberg Test for heteroskedasticity to ascertain whether the errors in the regression model exhibit a constant variance. The continuity of the error variance, or homoscedasticity, was proposed as the null hypothesis (Ho) of the investigation. A p-value of 0.1662 and a chi-squared statistic of 1.94 were the results of the test, which used the NPM fitted values as the dependent variables. After reviewing the data, the researchers concluded that the p-value was more than the generally acknowledged significance magnitude of 0.05. Therefore, the researcher refused to dismiss the null hypothesis That the variation of errors varies with the quantity of the independent variables is, hence, not supported by sufficient evidence. To clarify, there was no indication of heteroskedasticity in the study's results, which indicates that the errors in the regression model do not exhibit a consistent fluctuation with the NPM values that were fitted. It should be mentioned that homoscedasticity is still present even when there isn't enough evidence to reject the null hypothesis at the given significance level.

4.8 Inferential Analysis

Crucial to the study's development, inferential analysis goes beyond descriptive statistics to infer population characteristics from sample data. The major objective was to apply statistical approaches for hypothesis testing, outcome forecasting, and population-level extrapolation. The steps that have to be taken in a certain sequence

were laid down here. To begin, we used the research questions and objectives from Section 1.3.2 to develop a null and an alternate hypothesis, which we then used to test our hypotheses. We tested these hypotheses using appropriate statistical methods to determine the significance of the associations.

In order to find patterns in the relationships between our dependent and independent variables, we used regression analysis after testing our hypothesis. Using multiple regression analysis, we looked at the effects of capital structure decisions, inventory management, and cash management all at once on the output of the finances of tea manufacturers in the Mount Kenya region. It is possible that t-tests or analysis of variance (ANOVA) were used to conduct additional comparisons of group means and to determine the significance of differences.

Examining the model's goodness of fit and checking for problems with assumptions like normality, linearity, and homoscedasticity allowed the researcher to confirm that the regression model was accurate. The inferential analysis findings, which were based on the study's aims, provided insight into the variables' interrelationships and their implications for the economic outcomes of tea processing facilities in the Mount Kenya region. The researcher aimed to contribute to the existing body of knowledge, derive practical conclusions, and enlighten industry stakeholders and policymakers about the practical consequences via rigorous inferential analysis.

4.8.1 Correlation Analysis

Integral to the study's overarching goals is its use of correlation analysis, a standard tool for investigating interrelationships between data. In particular, researchers may learn a lot about possible patterns or dependencies in the dataset by using correlation analysis to determine the degree and direction of link between variables. In this part, we use

correlation analysis as a method for exploring and comprehending the variables under consideration with the main goal of identifying significant relationships among them. The researcher attempts to ascertain the statistical significance of the observed associations by analyzing correlation coefficients and the p-values that go along with them. When two variables have a positive correlation, it means they are directly related to one another; when they have a negative correlation, it means the opposite is true. Also, a correlation coefficient's value—closer to 1 or -1 suggesting a greater relationship—reflects the association's strength. Using correlation analysis, we can better understand how capital structure decisions, inventory management, and cash management affect the financial performance of tea processing factories in the Mount Kenya region. This is an important part of our study because we want to know how these variables interact with one another and how they affect financial performance. The researcher hopes to add to our knowledge of the factors influencing financial success in this particular sector by using this analytical technique.

Table 4.11 Correlations

		Capital structure decisions	Cash Management	Inventory Management	Financial Performance
Capital structure decisions	Pearson Correlation	1			.
	Sig. (2-tailed)				
	N	58			
Cash Management	Pearson Correlation	.118			
	Sig. (2-tailed)	.378			
Inventory Management	Pearson Correlation	.301*	-.199		
	Sig. (2-tailed)	.092	.135		
Financial Performance	Pearson Correlation	.659**	.788**	.769**	1
	Sig. (2-tailed)	.000	.000	.000	

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Researcher (2024)

The correlation between financial success and choices on capital structure is 0.659**, which is significant at the 0.01 level. Companies' financial performance tends to improve when they make more effective judgments about their capital structure. Similarly, cash management and financial success are strongly correlated (0.788**, significant at the 0.01 level). This provides further evidence that higher financial success is linked to more effective cash management strategies. Additionally, inventory management and financial success are strongly correlated (0.769**, significant at the 0.01 level). This suggests that better financial results are often the result of better inventory management. Overall, financial success is most strongly correlated with cash management, inventory management, and capital structure choices, suggesting that these three variables play a significant role in determining financial performance.

4.8.2 Regression Analysis

Financial performance is the supported variable, alongside the linkages between capital formation choices, cash management, and inventory management are explored in further depth using regression analysis. Discovering and quantifying these links, regression analysis provides vital insights into how changes in the independent variables impact the dependent variable; it is a strong statistical approach.

To check that the study's assumptions were correct and that regression assumptions were not broken, diagnostic tests were run before the regression analysis began. To evaluate the validity and reliability of the regression model, several tests are essential. In particular, we checked the data for heteroskedasticity, multicollinearity, and normality to make sure the regression findings were accurate.

Hypothesis Testing Results

The study assessed three hypotheses concerning the effect of financial management practices (capital structure decisions, inventory management practices, and cash management strategies) on the financial performance of tea processing factories in the Mount Kenya region. The hypotheses and the associated test results are summarized in Table 4.15 and discussed individually.

Table 4.12: Hypothesis Testing Results

Hypothesis	Independent Variable	Coefficient (B)	t-value	p-value	Decision	Conclusion
H01	Capital Structure Choices	0.602	2.700	0.009	Reject H01	Significant positive effect on financial performance
H02	Inventory Management	0.975	8.266	0.000	Reject H02	Significant positive effect on financial performance
H03	Cash Management	1.295	8.099	0.000	Reject H03	Significant positive effect on financial performance

H01: Capital Structure Decisions

The results indicate that capital structure decisions have a statistically significant and positive effect on financial performance, with a coefficient of 0.602, a t-value of 2.700, and a p-value of 0.009. This suggests that optimizing capital structure choices, such as balancing debt and equity financing, contributes positively to the financial success of tea processing firms. These findings are consistent with some previous studies, though contradictory to others. For example, Fekadu (2020) reported different outcomes in an Ethiopian context, while Mathur and Mathur (2020) found similar positive effects in Indian manufacturing firms.

H02: Inventory Management Practices

The findings reveal a significant positive relationship between inventory management practices and financial performance. With a coefficient of 0.975, a t-value of 8.266, and a p-value of 0.000, the results highlight the importance of effective stock control mechanisms in enhancing performance. The results align with prior research by Koech, Oluoch, and Muturi (2021) and Osman and Mukhongo (2018), who also identified significant benefits from efficient inventory practices.

H03: Cash Management Strategies

Cash management strategies were found to have the highest positive impact on financial performance among the independent variables, with a coefficient of 1.295, a t-value of 8.099, and a p-value of 0.000. This indicates that effective cash flow planning and liquidity management are crucial in driving financial success. These findings are supported by studies such as those by Amini et al. (2021) and Moses, Chika, and Ojas (2023), who documented the substantial role of cash management in improving profitability.

Table 4.13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858[a]	.736	.721	1.60955

a. Predictors: (Constant), Capital Structure Decisions, Cash Management, Inventory Management

Source: Researcher (2024)

The table in the Model Summary provides important facts regarding the regression analysis that examined the relationships between Financial Performance and the

independent variables (Capital Formation Choices, Cash administration, alongside uInventory Management). The considerable positive correlation between the two shows that changes in financial performance are substantially connected with changes in the independent variables (R value = 0.858a). Not only that, but the independent factors explain about 73.6% of the variation in financial performance (R Squared = 0.736).

The significance of the independent factors in predicting the outcomes of financial success is shown by this. The model's ability to explain the data is further reinforced after controlling for the number of variables, as seen by an Adjusted R Squared value of 0.721. This means that the variance in financial performance can be adequately explained by the independent variables to a degree of around 72.1%. Taken together, these figures demonstrate that the decision-makers were able to maximize their financial strategy thanks to the regression model's explanation of the complex link between capital structure choice, cash and inventory management, and financial performance.

Table 4.14: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	390.036	3	130.012	50.185	.000[b]
	Residual	139.895	54	2.591		
	Total	**529.931**	**57**			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Capital Structure Decisions, Cash Management, Inventory Management

Source: Researcher (2024)

Financial Performance was examined in relation to the independent changeables (Capital Formation Choices , Cash Administration , alongside Inventory Management) using the ANOVA table, which offers statistical metrics for evaluating the overall sufficiency and significance of the regression model. How much of the variation in the

dependent variable can be explained by the independent variables is shown in the "Regression" row. With three degrees of freedom, the regression sum is 390.036, indicating that the model represents a cardinal amount of the discrepancy in the economics outcome According to the examination of variance's outcomes, the regression model captures a large portion of the variance in financial performance, providing valuable information about the connections involving dependent as well as independent factors.

Table 4.15: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.992	4.162		3.602	.001
	Capital Structure Decisions	.602	.223	.202	2.700	.009
	Cash Management	1.295	.160	.589	8.099	.000
	Inventory Management	.975	.118	.625	8.266	.000

a. Dependent Variable: Financial Performance

Source: Researcher (2024)

Model Adopted was $Y = 1.992 + 0.602X_1 + 1.295X_2 + 0.975X_3 + e$

Objective 1: To Assess the Effect of Capital Structure Decisions on Financial Performance

The regression coefficient for capital structure decisions was positive and significant ($\beta = 0.602$, $t = 2.700$, $p = 0.009$), indicating that prudent capital structure choices positively impact the financial performance of tea processing firms in the Mount Kenya region. This finding is supported by the Pecking Order Theory, which emphasizes the importance of financing decisions and their hierarchical structure in optimizing a firm's cost of capital and profitability. The results align with studies by Mathur and Mathur (2020), who reported that balanced borrowing strategies enhance financial performance, especially in capital-intensive industries. However, the findings

contradict Fekadu (2020), who argued that excessive reliance on debt could erode profitability due to increased financial risk. In this study, the findings underscore the need for firms to adopt balanced debt-equity strategies to improve financial outcomes.

Objective 2: To Evaluate the Effect of Inventory Management on Financial Performance

Inventory management practices were also found to have a statistically significant and positive effect on financial performance ($\beta = 0.975$, $t = 8.266$, $p < 0.001$). This supports the Lean Inventory Management Theory, which advocates for the optimization of inventory levels to reduce costs while ensuring adequate supply for operational needs. The findings are consistent with studies by Koech et al. (2021), Osman and Mukhongo (2018), and Yankah et al. (2022), which demonstrated that effective inventory control enhances profitability by minimizing holding costs and improving resource utilization. These results emphasize that tea processing firms must adopt lean inventory practices and integrate modern stock management systems to improve efficiency and financial performance.

Objective 3: To Examine the Effect of Cash Management on Financial Performance

The coefficient for cash management was the highest among the independent variables, indicating a significant and positive relationship with financial performance ($\beta = 1.295$, $t = 8.099$, $p < 0.001$). This result supports the Cash Conversion Theory, which highlights the importance of maintaining an optimal cash conversion cycle to balance liquidity and profitability. Studies by Amini et al. (2021), Moses et al. (2023), and Wanjuki et al. (2021) corroborate these findings, demonstrating that robust cash management strategies enhance financial performance by ensuring adequate liquidity

for operations while reducing financial constraints. In the context of tea processing firms, the results suggest that effective cash management strategies, such as proper cash flow forecasting and reducing idle cash, can significantly improve financial outcomes.

The findings align with this theory by emphasizing the role of sound financial decisions in mitigating conflicts between management and stakeholders, ultimately enhancing financial performance. The significant impact of capital structure decisions highlights the relevance of this theory, particularly the preference for internal financing and the prudent use of debt. The substantial influence of cash management on financial performance underscores the practical application of this theory in optimizing liquidity and profitability. The findings on inventory management affirm this theory's emphasis on efficient inventory practices to minimize costs and improve financial outcomes.

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CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Chapter Five provides a comprehensive overview of the study's findings, conclusions, and recommendations.

5.2 Summary of the Study

The study sought to assess the relationship between financial management practices and the financial performance of tea processing firms in the Mount Kenya region. The specific objectives included examining the effect of capital structure decisions, inventory management, and cash management practices on financial performance. Data was collected from tea processing factories in the region and analyzed using descriptive and inferential statistics. The results revealed that inventory management and cash management had a significant and positive impact on financial performance, while capital structure decisions did not have a statistically significant effect.

The findings highlight that firms implementing sound inventory management practices, such as Just In Time models and proper inventory policies, achieved better financial outcomes. Similarly, effective cash management strategies, including budgeting and monitoring bank balances, positively influenced financial performance. These results are consistent with previous studies, reinforcing the critical role of inventory and cash management in driving organizational success. Conversely, while capital structure decisions demonstrated positive perceptions regarding factors such as retained earnings and interest rates, their statistical insignificance suggests that their influence on financial performance might be context-specific or moderated by external factors.

5.3 Conclusions of the Study

Capital structure decisions were not found to have a statistically significant effect on financial performance. However, firms demonstrated moderate adherence to practices such as reliance on retained earnings and favorable interest rates, which provide a strong foundation for financial stability. This finding suggests that while capital structure decisions are vital, their impact on financial performance may depend on the broader economic environment or other organizational factors. The conclusion aligns with prior research emphasizing the importance of balancing equity and debt to mitigate financial risks.

The study concluded that inventory management significantly influences financial performance. Firms implementing strategies such as Just In Time, staff training, and clear inventory policies experienced improved efficiency and profitability. These findings corroborate previous research, which highlights the positive relationship between efficient inventory management and organizational success. Effective inventory control reduces wastage, enhances production quality, and aligns with market demand, driving financial performance.

Cash management was identified as a critical determinant of financial performance. Practices such as budgeting, monitoring bank balances, and maintaining optimal cash levels positively correlated with improved financial outcomes. This conclusion is consistent with prior studies demonstrating that effective cash management enhances liquidity, ensures operational continuity, and supports strategic investments, ultimately contributing to organizational growth.

5.4 Recommendations of the Study

Tea processing firms should adopt comprehensive inventory and cash management policies to enhance financial performance. Policymakers in the tea industry should develop guidelines promoting the adoption of models such as Just In Time and provide incentives for training programs aimed at improving inventory practices.

To optimize cash management, policymakers should encourage the adoption of standardized budgeting frameworks and digital cash monitoring systems across the tea processing sector to improve financial transparency and efficiency.

Managers should prioritize effective inventory management strategies, such as implementing the Just in Time model, regularly training staff, and maintaining strong supplier relationships. Clear inventory policies should be reviewed and updated periodically to align with changing market conditions and consumer preferences.

Firms should adopt robust cash management practices, including regular cash flow monitoring and maintaining optimal liquidity levels. Budgeting systems and financial forecasting tools should be integrated into daily operations to enhance financial planning and decision-making.

5.5 Further Research Recommendations and Limitations

Further research is recommended to delve deeper into the specific impacts of different capital structure decisions, inventory management practices, and cash management strategies on financial performance within the tea processing industry. This could involve longitudinal studies to track the long-term effects of implemented practices, as well as comparative analyses across different regions or industries to assess variations in financial management practices and their outcomes.

To optimize cash management practices, tea processing factories should take advantage of cash discounts offered by suppliers, implement integrated financial systems for real-time monitoring of financial transactions, and establish clear credit policies with customers to ensure timely receivables collection. Moreover, the development and enforcement of comprehensive policies, rules, and regulations to guide cash management practices can enhance transparency and accountability, fostering a culture of financial discipline within the organization.

In conclusion, to enhance financial performance, tea processing factories should focus on maintaining strong financial health and profitability through prudent financial management practices. This includes ongoing efforts to optimize capital structure decisions, inventory management, and cash management strategies in alignment with organizational goals and market dynamics. Regular monitoring and analysis of financial performance indicators can offer insightful information about how well fiscal administration practices work. and inform strategic decision-making processes. Additionally, fostering a culture of financial literacy and accountability among employees can promote greater transparency and efficiency in financial operations, contributing to sustained growth and competitiveness within the tea processing industry.

One limitation of this study is the reliance on self-reported data from tea processing factory managers, which may introduce response bias or inaccuracies. Additionally, the study's scope is limited to the Mount Kenya region, which may not fully capture the diversity of financial management practices and their impacts across different regions or industries. Furthermore, the study focuses primarily on quantitative analysis,

potentially overlooking qualitative aspects that could provide deeper insights into the factors influencing capital structure decisions and financial performance.

5.6 Suggestion for Further Study

To gain further insights into capital formation choices and fiscal outcomes in the tea processing business in Mount Kenya region, future research should focus on investigating the precise elements that influence capital structure choices. An examination of the influence of external variables, such as economic circumstances, industry developments, and regulatory environments, on choices about capital structure might provide a more thorough comprehension of the underlying dynamics. Longitudinal studies that monitor the financial performance of tea processing plants over time, especially in connection to changes in capital structure choices, would provide useful insights into the long-term consequences of various financing methods. Moreover, conducting comparison research across other locations or sectors might provide a clearer understanding of how contextual variables impact the connection between capital structure choices and financial success.

Future study might investigate the incorporation of environmental, social, and governance (ESG) aspects into financial performance indicators in the tea processing business. A review of the correlation betwixt sustainability efforts, social responsibility of corporations practices, and fiscal outcomes results might offer insightful information into the wider influence of non-financial elements on the success of a firm. Furthermore, conducting comparison studies that analyze the finances outcomes of tea processing entities that have adopted sustainability measures as opposed to those that have not might provide actual data supporting the economic rationale for sustainability. Furthermore, conducting longitudinal studies to monitor the economic result of tea processing factories in the face of external shocks, like as pandemics or natural

catastrophes, might provide valuable insights into the resilience of various business models and tactics.

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APPENDICES

Appendix I: Questionnaire

Dear Respondent,

I am JOSEPH NJORE WAINANA, a Master's student at Kenyatta University and conducting research on "*FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF TEA PROCESSING IN MT. KENYA REGION."*

The research is purely academic and it's my hope that you will accord me assistance and provide me with the required information. Do not write your name in this questionnaire.

SECTION A: PERSONAL INFORMATION

1. Please indicate your Gender

   Male ( )

   Female

2. Please indicate your work experience

   Below 3 Years ( )

   Between 4-6 Years ( )

   Over 6 Years ( )

Section A: Capital Structure Decisions

Question Number	Question to Respondents	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Our factory finances its assets through loans from commercial banks					
2	The factory enjoys favorable interest rates from financial institutions					
3	Our factory has sufficient equity funds to run its operations					

Question Number	Question to Respondents	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
4	Our factory relies greatly on retained earnings to fund asset acquisition and other capital expenditure					
5	Our factory has a set capital structure which is maintained					
6	Our factory has great retained earnings reserves and always retains part of earnings to go to retained earnings					

Section B: Inventory Management

Question Number	Question to Respondents	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The factory utilizes the Just In Time model of inventory management					
2	The factory organizes training for staff who are in charge of inventory management with a view to making them updated on best practices					
3	The factory has an inventory management policy which spells out low limit and maximum level of inventory to be held at a time					
4	The factory continually focuses on quality improvement in its production process to minimize waste					
5	The factory has a cordial working relationship with its suppliers					

Section C: Cash Management

Question Number	Question to Respondents	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The factory prepares a cash budget which is regularly reviewed on a weekly or monthly basis					
2	The factory takes advantage of cash discounts offered to it by the suppliers					
3	The factory has an integrated financial system in which it is able to monitor bank balances and petty cash balances in real-time					
4	The factory has a credit policy with its customers and efforts are made to make sure account receivable are received on time					
5	The factory has an optimum cash level which is maintained at all times					
6	The factory has laid down policies, rules, and regulations to guide cash management					

Section E: Financial performance

Kindly furnish us with the following information for your Tea Factory.

	2018	2019	2020	2021	2022
Net profit margin					

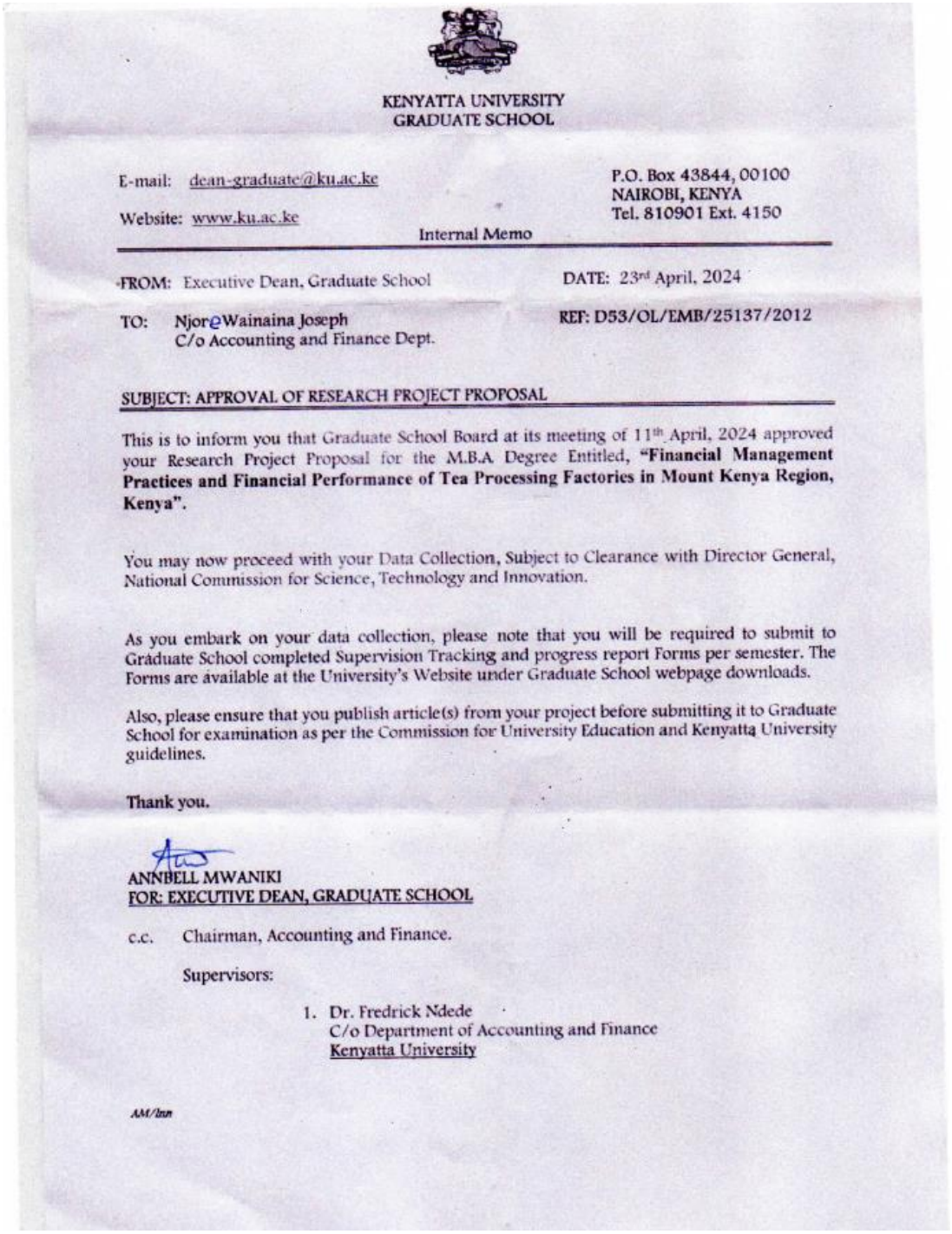
What ways or steps would you recommend to improve financial performance in your company……

……

Appendix II. List of Tea Processing Companies in Mount Kenya Region

County Zones	No. of Factories
Nyeri	1.Chinga Tea Factory 2.Gathuthi Tea Factory 3.Ragati Tea Factory 4.Iria-ini Tea Factory 5.Gitugi Tea Factory
Kirinyaga	1.Thumaita Tea Factory 2.Ndima Tea Factory 3.Kimunye Tea Factory 4.Kangaita Tea Factory 5.Mununga Tea Factory
Embu	1.Mungania Tea Factory 2.Kathangariri Tea Factory 3.Rukuriri Tea factory
Tharaka-Nithi	1.Weru Tea Factory
Meru	1.Imenti Tea Factory 2.Githongo Tea Factory 3.Kinoro Tea Factory 4.Igembe Tea Factory 5.Michimikuru Tea Factory 6.Kionyo Tea Factory
Muranga	1.Gacharage 2. Gatunguru 3.Githambo 4.Ikumbi 5.Kanyenyaini 6. Kiru 7. Makomboki 8.Nduti 9. Ngere 10.Njunu
Kiambu	1. Gachege 2. Kagwe 3. Kambaa 4. Mataara 5. Theta
Total	**35**

Appendix III: Research Approval



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P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

Internal Memo

FROM: Executive Dean, Graduate School

DATE: 23rd April, 2024

TO: Njoroge Wainaina Joseph
C/o Accounting and Finance Dept.

REF: D53/OL/EMB/25137/2012

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 11th April, 2024 approved your Research Project Proposal for the M.B.A Degree Entitled, **"Financial Management Practices and Financial Performance of Tea Processing Factories in Mount Kenya Region, Kenya".**

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and progress report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Also, please ensure that you publish article(s) from your project before submitting it to Graduate School for examination as per the Commission for University Education and Kenyatta University guidelines.

Thank you.

ANNBELL MWANIKI
FOR: EXECUTIVE DEAN, GRADUATE SCHOOL

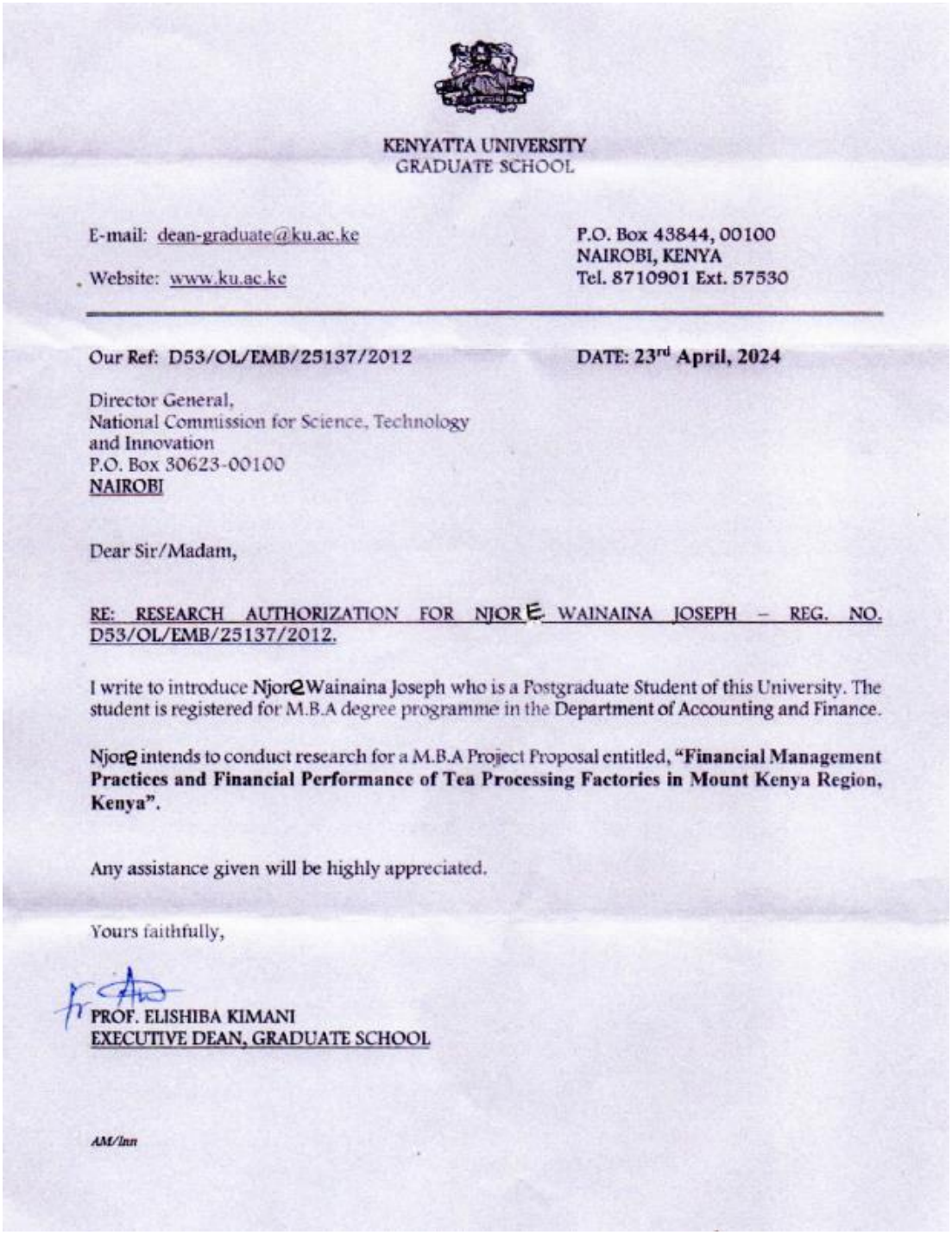
c.c. Chairman, Accounting and Finance.

Supervisors:

1. Dr. Fredrick Ndede
   C/o Department of Accounting and Finance
   Kenyatta University

AM/lnn

Appendix IV: Research Authorization Letter



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NAIROBI, KENYA
Tel. 8710901 Ext. 57530

Our Ref: D53/OL/EMB/25137/2012 DATE: 23rd April, 2024

Director General,
National Commission for Science, Technology
and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION FOR NJORGE WAINAINA JOSEPH – REG. NO. D53/OL/EMB/25137/2012.

I write to introduce Njorge Wainaina Joseph who is a Postgraduate Student of this University. The student is registered for M.B.A degree programme in the Department of Accounting and Finance.

Njorge intends to conduct research for a M.B.A Project Proposal entitled, **"Financial Management Practices and Financial Performance of Tea Processing Factories in Mount Kenya Region, Kenya".**

Any assistance given will be highly appreciated.

Yours faithfully,

PROF. ELISHIBA KIMANI
EXECUTIVE DEAN, GRADUATE SCHOOL

AM/lnn

Appendix V: NACOSTI License

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 784542

Date of Issue: 23/May/2024

RESEARCH LICENSE

This is to Certify that Mr.. JOSEPH NJORE WAINAINA of Kenyatta University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Embu, Kiambu, Kirinyaga, Meru, Muranga, Nyeri, Tharaka-Nithi on the topic: FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF TEA PROCESSING IN MT. KENYA REGION for the period ending : 23/May/2025.

License No: **NACOSTI/P/24/35712**

784542

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

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See overleaf for conditions